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## DISCUSSION BOOKS

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## EARNING AND SPENDING

*No. 14*

# EARNING AND SPENDING

*by*  
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" It is for the heart to suggest our problems, it is for the intellect to solve them      The only position for which the intellect is primarily adapted is to be the servant of the social sympathies "

AUGUSTE COMTE, quoted by A. C. PIGOU,  
*The Economics of Welfare.*

## INTRODUCTION

IT is well, at the outset, to explain the purpose and scope of this little book. It is intended for the general reader interested in economics, and especially for the student who is approaching the subject for the first time. I am convinced that the right way of approach to a study of economic activities is through the national income, and the standards of living attained by the population. All toiling and planning, finance and management, are directed solely to the end of providing life more abundantly for the people who work and their dependants. Lack of information about standards of living has, until lately, directed economic discussion more into questions of the mechanism of production than into the degree in which the professed objective of that production was being attained. Still more ; it was assumed that nothing need be done or even known about people's incomes, for with increase in wealth production incomes would automatically reach the maximum attainable under existing circumstances. Depressions and unemployment—of men and other resources—gluts and unused potentialities of production, have shattered this complacency. It is possible—no one knows for certain—but it is possible that if we start from the income end, and at least raise low incomes to decent levels, if we ensure as far as we can that all men in work receive payments with which they and their families can buy good food, housing, and clothes, we shall provide that fillip to pro-

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duction, that motive force behind economic activity that is now so conspicuously and bewilderingly lacking.

The book will not tell anything new to those who are already familiar with the main tracks through economic facts and theories. They may criticize it for its omissions; for the study of incomes spreads out over a vast field of facts and of problems. It is couched in simple—perhaps over-simple—language, but does, I hope, present the essential picture for an understanding of the economic process in its modern context.

My hope has been that the reader will at least become familiar with certain material that is now available, and will turn to it for further and more detailed illumination. My debt is great to certain books, particularly Colin Clark's *National Income and Outlay*, Sir John Orr's *Food, Health and Income*, Sir William Crawford's *The People's Food*, and B. Seebohm Rowntree's *The Human Needs of Labour*. Other books are acknowledged in the Book List. I owe much to the work done for the League of Nations on standards of living and nutrition by Mr. F. L. McDougall, Economic Adviser in London to the Commonwealth Government of Australia, and Mr. N. F. Hall, previously professor of economics at University College, London, and now director of the National Institute of Economic and Social Research, to both of whom I am also indebted for reading the book in proof and making valuable suggestions.

My thanks are due for assistance and encouragement to my wife, Sheila Morris.

W. A. M.





# EARNING AND SPENDING

## CHAPTER I

### EARNING AND SPENDING

EVERY one will agree that earning and spending form one of the most important facets of our lives. For one thing, they take up so much more of our time than any other activity. Indeed, as things are at present, they crowd out many of the activities to which we would willingly devote ourselves. For another, so much of what makes life worth living is dependent upon them. Health itself depends largely upon income and the conditions under which it is earned. Education, freedom to move about the world, the opportunity to appreciate beauty, are purchasable and are therefore related to earning and spending power.

Earning results in, and spending is limited by, income. The chapters that follow are a study of incomes. It is a study that is particularly worth making at the present time, for several reasons. Within the last two or three years a great deal of information has become available, through investigations by governments and private bodies, upon the levels of income received by different sections of the community and upon the extent to which those incomes are sufficient or insufficient to purchase

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the necessities of life. The general tenor of these reports is that a large number of people even in the most advanced countries are unable to buy enough food to keep themselves well nourished. In the less advanced countries, such as India and China, there is an appalling state of under-nourishment and consequent loss of human potentiality. Biochemists can now tell us what quantities of any national diet are necessary to provide a man, woman, or child with adequate nourishment. We therefore have for the first time a fairly accurate knowledge of the increased quantities of food required to satisfy the minimum reasonable needs of everybody. We shall probably soon have similar information about house-shelter and clothing.

This is important, because governments now intervene, when they deem it necessary, in economic life to an extent that would have seemed quite alien to their functions in the nineteenth century and indeed right up to 1914. Once we possess information about the quantities of food, houses, clothing, and other necessities lacking before a decent minimum level of consumption for all can be attained, governments can direct the economic machine in such a way that an effort is made to provide these goods.

Since the end of the Great War the productivity of most branches of industry and farming has increased by leaps and bounds. The quantity of goods produced per man employed has increased because machinery has become more efficient and, in agriculture, because biological and chemical knowledge has increased the yields of plants and animals and the fertility of soils and pastures. Unfortunately much of this technical advance has been vitiated because mankind has not found the way

to distribute to consumers the additional goods produced. In many branches of the world's agriculture there are "surpluses" that cannot be sold at prices satisfactory to the farmers and that are stored or even destroyed. The farmers enter into international schemes to restrict production; and such schemes are also common in non-farming primary production, such as copper and tin mining. In industry, periodic slumps restrict the output of factories to a fraction of their capacity. There is evidence that industry as a whole hardly ever produces the full output that existing plant and men would permit.

We are gaining, therefore, both the knowledge (of a precise kind that we have not had before) that incomes fall below reasonable human needs, and at the same time an increasing power to provide larger incomes all round. It is this that makes the problem of incomes one that will be of outstanding practical importance in the immediate future.

Very much of political action is wrapped up in this question. Men with small incomes can purchase only restricted amounts of commodities; but still more, the opportunities for development of the potentialities within them are limited. They work for long hours under conditions that cramp the freedom that is necessary for a full life. Or, if they possess the large leisure of the unemployed, they lack the means to make it fruitful. If they are farm workers—who still predominate over industrial workers in the world as a whole—their hold on the barest necessities is precarious. Under these conditions men criticize and sometimes attack the States that possess the power to improve the organization of production. Governments, for their part, are concerned

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to an increasing extent, though often inefficiently, in promoting "prosperity." Conflicting ideologies are in large part opposing conceptions of the way that incomes can be maximized.

A family's real income as generally understood is the quantity of goods it procures in a week or a year or any such period. The national income is the total of goods coming into the possession of everybody in the nation in a year. We shall see in the next chapter that it is possible to arrive at a money figure which represents the national income of Great Britain. This consists of the total monetary value of all the goods produced by industry and all the commodities produced by agriculture, with an adjustment for the goods exchanged in foreign trade. On this great stream of goods the people of Britain live. This is the sum total of all the things that they buy with their wages, salaries, dividends, or pensions, week by week for a year.

It is with this great total of goods that this book is concerned; not in Great Britain alone but in the world as a whole. What happens when it is divided all round? We have already referred to the evidence that exists that in no country to-day does everybody get even enough to eat. There are, however, wide differences from country to country. In Britain and other western European countries, the British Dominions and the United States, the general level of comfort is relatively high. In China, on the other hand, according to an official report, "broadly speaking, all the people are under-nourished all the time." But inside countries there are equivalent differences of income. Most people accept without much thought the gradation from match-sellers to millionaires. Nor is the difference itself a

matter of as much importance as the pressing need that the poorer sections of the population should have sufficiency of food, housing, and leisure. Nevertheless a prominent economist has said that "the arbitrary and inequitable distribution of wealth and incomes is one of the outstanding faults of the economic society in which we live." (Mr. J. M. Keynes.)

The reader may criticize the argument that to increase incomes is the greatest social task of to-day on the ground that an income of goods contributes only a small part of personal well-being. A priest, an artist, or a tramp may lead happy lives on incomes that would not satisfy an ordinary labourer. The wealthier a man gets the greater is his desire to emulate his neighbour in the possession of goods. As time passes, invention and advertising create new "necessities"—for articles like wireless sets and motor cars—the possession of which does not necessarily make men happier. This criticism has much point, but there are two answers to be made to it.

By a satisfactory income we mean, in the final analysis, the getting of ample leisure, of a high standard of education so that leisure can be well used, of houses that are beautiful as well as merely sanitary, of conditions of work that afford freedom for the development of personality—all these, as well as supplies of good food, a house, warm clothing, and all conventional necessities must be available before a man's needs for income are satisfied on a level that can be regarded as reasonable. The term income should not be taken to refer to the supplies of the physical necessities of life, without reference to man's deeper needs.

It is true that some men can achieve happiness on a

very small income. Nevertheless the life of hermits and sages is not that of mankind as a whole, which needs the comfort of food and warmth. Poverty is good only when voluntary. Most families in the world are still so poor that their lives might be described in the words of Thomas Hobbes as "nasty, poor, solitary, brutish and short." Many peasant families in eastern Europe have been unable in recent years to buy even the matches and shoes which were previously the only goods they bought from outside their poor holdings. Such poverty reacts upon health and shortens life. The man who eats maize because he cannot afford wheat gets the distressing disease of pellagra, and the man who subsists on polished rice suffers from beri-beri, both of which are often fatal. No arguments about the beauties of a Franciscan life of poverty can make such existence tolerable.

Some of the necessities of more advanced countries are conventional rather than absolute. Wireless sets, cinemas, and artificial silk stockings are rightly regarded as necessities in countries on the same economic level as Great Britain or the United States. Because these luxuries have been invented, and can be enjoyed by most people—to be deprived of them is to experience the pangs of poverty. It has often been pointed out that much spending nowadays is upon articles for "conspicuous consumption." A man or woman "needs" a certain article because a neighbour possesses one. Spending is also influenced by the fashions of wealthier people as reflected in the Press. It is sometimes argued that such artificially created wants are not necessities of the good life at all, and that our troubles arise from the existence of a materialistic society which creates and then often fails to satisfy such needless needs. The securing of a

diversified consumption of things that give pleasure, however, is a very natural human objective. When necessities and simple pleasures are provided on a more generous scale, it will be time to talk of concentrating less upon material wealth. In the course of human development it has been only when the pressing necessities of some have been amply supplied that thinkers, artists, and reformers have had leisure to attempt to change the world for the better by invention and creation leading to a fuller and less materialistically centred life.

We want now to consider what bearing the science of economics has upon the subject of incomes. One of the best-known definitions of economics, that of Professor Alfred Marshall, is that economics is concerned with "how man gets his income and how he spends it." This is obviously closely akin to the subject-matter of this book. Yet it cannot be denied that economics for most people calls up a dim hinterland of technicalities—of banking, tariffs, laws of supply and demand, and Marxian doctrine. It seems to be less directly concerned than it should be with the urgent social facts of under-consumption, unemployment, excessive hours, and over-production.

To understand what is the field of study that has been cultivated by the economists we must return to the notion of the national income, which, as already mentioned, is the flow of goods, and also of such services as are bought and sold, that is produced and utilized by the inhabitants of a country in any given period of time. This "flow" consists of an infinite multitude of goods, from coal, turbo-generators, and ships to sacks of flour, suits, bus-rides, and cinema shows.

The title of Adam Smith's classical work, *The Wealth*

of Nations, indicates that the father of the science was deeply concerned with what policies would produce the greatest national income. Economists have generally held, for example, that tariffs (i.e. import duties) make the national income smaller than it would be under free trade. They have also been absorbingly interested in the way in which the national income is produced, despite the absence of any central directing authority (except in Russia) to say that so much of this and so much of that shall be grown or manufactured. Take a modern large city of a million or more inhabitants. Every morning bottles of milk appear on each doorstep, trains run, groceries and greengroceries are for sale in shops. If a man wants to buy a bicycle, there is one waiting for him in a shop. All this vast activity of production, distribution, and purchasing goes on with an apparently effortless automatism. No single mind directs it, yet there is not, as a rule, any dislocation. There are no motor cars held up at the factory for lack of tyres, nor tyres for lack of motor bodies. The complex jig-saw fits together perfectly.

Now the economists have devoted infinite pains to examining the way in which this comes about. The price system links together the production of everything. If there is an exceptional demand for any one commodity, the price goes up because people bid against one another for it. (A striking example was sacks for sandbags in the crisis of September 1938.) It becomes more profitable to produce this commodity, and great efforts are made to produce more of it. Capital, labour, and raw materials are needed, and they are drawn away from other possible uses by an increased price being offered in the branch of industry concerned. This all-



pervading regulator, price, needs money—notes, coins, and cheques—for its effective operation. The banking system is therefore of special importance, because any imperfections in it upset the working of the whole productive process.

It may therefore be said that what the economist does is to study the production and distribution of the national income in all their aspects except the technological ones, which are the province of the engineer and the chemist; and that he also makes recommendations as to the policies that will lead to the production of the maximum national wealth. If every one gets a fair share and works under fair conditions, personal incomes will be greater the greater is the national income. Economics is therefore to a considerable extent the study of incomes, which is the subject-matter of this book.

Nevertheless there are two reasons why this book breaks ground different from that covered by most books on economics. During the nineteenth century people discovered excitedly that the Industrial Revolution and improvements in transport enabled us to produce many more goods than ever before. The problem seemed to be to develop this process indefinitely by removing man-made handicaps to production. As long as the goods were produced, people would get and consume them. As long as more and more goods were produced people would be able to consume more and more. In the excitement of industrial progress nobody bothered very much about how the consumers were actually living; what they ought to have to eat and whether they were getting it. "All in good time," people would say. "Let us specialize each one upon what he can do most efficiently, let us give full rein to free

enterprise, and then we shall so develop output and trade that we shall reach the maximum income that is humanly attainable for everybody." Economics therefore was, and has largely remained, producer economics. The condition of consumers followed as a result of efficient production, and was not particularly worth studying because everybody assumed that as long as the conditions of production and trade were made as efficient as possible consumers would be as well-off as they could be. But this attitude has its dangers. No sane man yet produced a bar of steel for its own sake, but only as a step towards the production of something else that would be of use to the final consumers. It is at least as important to know how the ultimate results of production are working out as it is to understand the conditions under which the maximum number of bars of steel can be produced and exchanged. Moreover, every member of the community is a consumer, only some are producers. To understand the ultimate result of production we want to know how many of the population are desperately poor, how many are poor, how many reasonably satisfied, and how many are well-off. We want to know how the goods that these various groups are able to consume compare with a reasonable human standard of consumption. Without this side of the picture our understanding of the economic process is very incomplete.

There is another danger. Income, properly understood, includes all those things that are purchasable with money; that is, leisure, education, beautiful surroundings, health, security, as well as mere commodities. This is very clear when a man considers his own income. His money income is, let us say, £5 per week. His real income is the things he buys with the money. Now

leisure is in a sense one of these things, since more can be got by working less hard and so sacrificing a part of the week's wages. A park that he can enjoy also makes a contribution to his real income, even though his share of this amenity may not actually be paid for by him. He would not for a moment think of his income only in terms of physical necessities. This, however, was what nineteenth-century economic thinkers were inclined to do under the influence of producer economics. The rôle of spaciousness and dignity in daily living was overlooked. This was inevitable until consumer economics—the study of incomes—received its proper emphasis. It is true, of course, that the business of extracting a living for mankind from natural resources by the aid of machinery remains a hard and gruelling task, requiring the expenditure of physical energy and much sacrifice of personal freedom. What is important for us to remember is that this discipline has as its sole aim the attainment of well-being. A great social organism for producing more goods by sweat and toil defeats its aim if the final consumers remain under-nourished, ill-housed, and worked to early death.

There is one other thing that conventional economics has notably failed to do. It has reached a very complete understanding of the way in which existing resources of production can be most efficiently employed, in order, as our example of the large city illustrated, to produce a smooth flow of goods in the right quantities at the right place and time. But there are many resources for producing more wealth that are not utilized, and economics has not discovered how to utilize them. There is now in Great Britain an apparently permanent body of unemployed amounting to not far short of 2,000,000 men.

These men want to work and cannot. Existing plant operates at below capacity as the rule rather than the exception. Agreements to restrict production cover a large part of industry and agriculture. Scientific knowledge in agriculture can often not be employed because farmers dare not increase the yields of their crops for fear that prices should fall to ruinous levels. A great increase in the world's wealth and leisure appears to be possible if we can discover how to utilize its resources more fully. In some measure our failures have been caused by neglect of the economists' advice. Excessive import duties, and the encouragement of uneconomic crops and industries, have caused some of the world's unemployment and commodity surpluses. The fact remains that production and consumption are out of joint. It is to be hoped that greater scientific knowledge of human needs will provide the key to this conundrum. We may in the future have a clearer vision of the quantities of goods that are required to provide the material basis for a good life for everybody. Certainly those quantities will be greater than the quantities that are now being produced. We shall not forget either that reasonable leisure is a necessary part of a satisfactory standard of living. With this knowledge before us we shall see more clearly the methods of using the resources of the world more effectively than at present. As H. G. Wells has said: "The besetting vice of economic science, orthodox and unorthodox alike, has been the vice of beginning in the air, with current convictions, with questions of wages, prices, values and possession, when the profounder issues of human association are really not to be found at all on these levels. The primary issues of human association are biological and psycholog-

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ical. . . . The first thing we should examine is what we want to do with natural resources, and the next, how to get men to do what has to be done as pleasurably and effectively as possible. Then we should have a standard by which to judge the methods of to-day." (*What are we to do with Our Lives?* 1931.)

## CHAPTER II

### WHAT BRITAIN PRODUCES AND WHO GETS THE PROCEEDS

SOME facts about the national income of Great Britain will help towards a clear understanding of the problems before us. The figures of national income and personal income that are given below are not a complete measure of real income. As was mentioned in Chapter I., leisure and conditions of work must be taken into account in considering whether a man's income is satisfactory, and these are not susceptible of measurement in money. An income of £5 a week for 46 hours would represent a higher real income than the same sum for 60 hours work. However, just as his money income per week is the best available measure for comparing one man's income with another's or with his own income at a previous date, so the value of the goods and services available to the nation in a year is the only total on which we can base an estimate of the relative prosperity of an economy as a whole.

Great Britain has a population of 47 million persons, of whom rather less than half are actually engaged in industry, agriculture, and the professions. However a man lives, whether on a wage or salary, on the interest of investments, on profits from a business, on a pension, or on the support of a relative, he is a sharer in the annual flow of goods that proceeds from factories and workshops, and of the services that are rendered by persons (like doctors) and industries (like transport) whose labour

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issues in services and not in concrete commodities. The national income can be viewed in two aspects. On the one hand, it is the total money received as income by every one in the community. On the other hand, it is the total of goods that they buy with this money ; which is the same thing as the total of goods produced and sold. It is perhaps only clear that the total of goods produced is the national income if we bear in mind that some people "save" a part of their incomes ; that is, they spend part in buying goods for investment purposes instead of for consumption. A man who uses part of his savings to buy shares in a new company is in effect spending that part of his income upon the factory and machinery that the company acquires with the proceeds of its share issue. The national income may therefore be divided into "consumption goods" that are bought for immediate consumption and "investment goods" that are bought out of incomes, but are nevertheless commodities, like bricks and mortar, that do not provide immediate satisfactions. The total value of consumption plus production goods produced in a year equals the total of everybody's money incomes in the same period.

Great Britain is predominantly an industrial country, as is shown by the following approximate figures of goods and services produced in a recent year.

<i>Britain's National Income</i>		<i>£ millions</i>
Goods produced in industry . . . . .		2,650
Commodities produced in agriculture . . . . .		233
Finished goods imported . . . . .		463
Services rendered by professions, etc., etc. . . . .		1,364
		<hr/> 4,710
Deduct goods exported . . . . .		710
		<hr/> 4,000

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The general standard of living, in its measurable aspects, depends upon the size of the national income. It will be seen that the above total, divided by the total population, provides £85 worth of goods per year on the average for each man, woman, and child. "Per occupied person it is about £170 per annum, or at 50 weeks and 46 hours work a week, 1s. 6d. per hour. Thus on a very general view one hour's work averaged over all is equivalent to goods and services that can be purchased for 1s. 6d. Examples are two quartern loaves, or 1 lb. of best meat, or 3 quarts of milk, or 16 miles personal transport by rail, or 1½ miles by taxi, or 2 minutes of a consultant's time, or 9 units of electricity. To get an idea of the change that has occurred in a lifetime, we may make a comparison with prices in 1860. For that date aggregate income has been estimated at £750 millions, £26 per head. Taking again that half the population was gainfully occupied, and assuming 50 weeks work of 60 hours per week, we obtain about 4d. for the average value of an hour's work. In 1860 this 4d. would buy about 3 lb. of bread, or 10 oz. of middling meat, or 3 pints of milk, or 4 miles of slow rail transport, no motor transport and no electricity, but energy generated from perhaps 40 lb. of coal; or it would pay for one-twentieth of a lawyer's letter." (A. L. Bowley, Presidential Address to the Royal Statistical Society, 1938—see Book List.)

The size of the national income in its turn depends upon the numbers of the working population; their intelligence and efficiency; the industrial and agricultural capital that has been acquired in the past (factories, roads, railways, land drainage, etc.); the knowledge of technical processes and methods of industrial organiza-



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tion that have been evolved ; and natural resources. The industrial countries of the world generally, although not invariably, enjoy the highest average incomes per head, because man-power plus machinery, and the complex industrial specialization that may grow up in populous countries, are almost always able to produce a greater output per head than man-power aided by relatively little machinery, as in agriculture. The countries of the world that are primarily industrial are : the United States of America, Great Britain, Germany, France, Italy, Belgium, Switzerland, Japan, possibly Canada and Sweden.

The following figures (given in *The National Income of Australia*, by C. G. Clark and J. G. Crawford) show the average incomes available per head of the working population in a number of countries. The figures are described as being in United States dollars with the purchasing power they had in 1925-34.

	<i>Dollars per head.</i>
United States . . . . .	1,397
Canada . . . . .	1,380
New Zealand . . . . .	1,202
Great Britain . . . . .	1,069
Switzerland . . . . .	1,036
Australia . . . . .	1,012
Holland . . . . .	855
Eire . . . . .	770
Sweden . . . . .	695
France . . . . .	694
Denmark . . . . .	680
Germany . . . . .	646
Japan . . . . .	400 (approx )
Poland . . . . .	352
Italy . . . . .	338
Russia . . . . .	320
India and China . . . . .	100 to 200

Agricultural countries exhibit greater differences in average output per head than do the industrial countries. A large part of the problem of the world's poverty results from the very low levels of output in the agriculture of the economically backward countries. An investigation in India, for example, has discovered that "under present agricultural conditions and methods of cultivation, India is barely able to supply enough food to ensure an adequate diet for the total population." A vast improvement in agricultural efficiency is needed in these countries before standards of living can be appreciably raised. It is not to be inferred that a country must be highly industrialized before it can attain a good standard of living. On the contrary, an agricultural country like Denmark can reach a high standard by the adoption of efficient methods. Intense industrialism and unplanned urbanization may themselves counteract the beneficial consequences of the relatively high incomes in goods that are enjoyed.

The figures in this and succeeding chapters relate mainly to the goods produced in Great Britain, the manner of their production, and the division of the product among various classes of the population. The problem of incomes, however, is a world-wide one, and the figures must be taken as merely illustrative. They may be paralleled by figures from other countries, although in most other countries, except the United States, and certainly in the less advanced countries where poverty is most pressing, the statistics are less complete than in Great Britain.

A fifth of the population of Great Britain is either below 14 or above 60 years of age, and therefore broadly outside the field of employment. Of the rest,

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rather more than half are women and  $6\frac{1}{2}$  millions of those work in factories, offices, domestic service, and the professions. The total number of persons recorded as engaged in producing the things on which the whole country lives is just over  $21\frac{1}{2}$  million, who work in the following occupations :

	<i>Numbers employed,</i>
Factories . . . . .	6,830,000
Trade . . . . .	3,070,000
Personal service . . . . .	2,460,000
Unskilled work . . . . .	1,930,000
Transport . . . . .	1,890,000
Clerks . . . . .	1,560,000
Farming . . . . .	1,450,000
Mining . . . . .	1,120,000
Professions . . . . .	990,000
Army and Navy . . . . .	190,000
Civil service . . . . .	130,000
	<hr style="width: 100%; border: 0.5px solid black; margin: 5px 0;"/> 21,620,000

The  $12\frac{1}{2}$  million women who work at home at household duties, looking after their husbands and children, are not to be regarded as producing no contribution to the national income. On the contrary their services are obviously of the utmost value. It is impossible to put any money valuation upon these services, and it is only for this reason that they are not included in the £4,000 millions of the country's production.

The principal groups of industries in which the industrially employed section of the population works are as shown in table on page 28.

This table shows that in no industry does each person employed produce on the average more than £410 worth of goods a year, or £8 worth a week, and that

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<i>Industry</i>	<i>Valuation of production (net). £ millions</i>	<i>Output per person employed. £</i>
Engineering, shipbuilding, motor cars, etc	230 0	214
Electricity, gas, water supply	191 0	241
Food, drink, and tobacco	188 2	398
Mining	155.2	152
Textiles	147 4	139
Paper and printing	103 3	272
Building	94 1	207
Iron and steel	91 7	186
Clothing	78 1	159
Chemicals	72 9	409
Building materials	45 1	201
Timber	31 5	188
Metals, except iron and steel	23 6	215
Leather	10 2	221
All industries	1,505 2 <sup>1</sup>	211

in some industries the average is a good deal less. Obviously people's wages cannot on the whole be greater than the value of the goods they produce, and therefore the general level of wages throughout the country is determined by the figures given above. The increase in average output is one of the principal means by which an increase in incomes can be brought about. While the introduction of improved and more labour-saving machinery may inflict great hardship for the time being on people dispossessed from employment, yet, as it raises the output per person employed, it creates the possibility of higher levels of wages and salaries.

It is of little use from the social point of view for the

<sup>1</sup> The reason for the difference between this total and the total of £2,650 millions given in the table of Britain's National Income is that the smaller total represents net output, i.e. the value added by industries to purchased raw materials

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wages of one section of the population to increase if another section cannot get employment and lives on unemployment pay at bare subsistence level. This is what has happened in Britain for several years past. The numbers unemployed have been :

### *Unemployment in Great Britain*

	<i>Wholly unemployed.</i>	<i>Temporary stoppages.</i>
1929	994,091	268,410
1930	1,464,347	526,604
1931	2,129,359	587,494
1932	2,254,857	573,805
1933	2,110,090	456,678
1934	1,801,913	368,906
1935	1,714,844	312,598
1936	1,497,587	251,379
1937	1,277,928	204,020
1938	1,423,662	378,918

One of the factors in increased general levels of income is organization. It is essential to organize trade efficiently as well as to increase the output of goods. Unemployment is caused by economic changes with which organization has been unable to deal. Great industries like cotton textiles and shipbuilding lose their markets because countries abroad set up their own industries under the shelter of protective duties. Lancashire and Tyneside suffer unemployment which can only be cured by the revival of markets or the transference of men to more active industries. World trade is dislocated at present through the arbitrary actions of governments. Unemployment can be cured only by the organization of trading systems in which sudden arbitrary changes do not occur, or alternatively by the more rapid ab-

sorption of unemployed persons into occupations other than those so dislocated. The second method presents difficulties in training them for new jobs, and often uprooting them from familiar surroundings.

Improvement in machinery is the principal, but not the only way in which industrial output may be increased. The discovery that some particular operation in a factory is inefficient and time-wasting and could be performed in another way with economy of effort may help to bring about the same result. An American, F. W. Taylor, developed the study of such methods under the name of "*scientific management*," and another American, Bedaux, has built up a world-wide organization giving advice upon such matters. Russia has lately rediscovered scientific management and the fact that output may be stimulated by piece-rate payments, and has applied these principles under the name of the "Stakhanov" movement.

These methods are often unpopular with wage-earners, who assert that *intenser effort* is required for the same pay. All efforts to increase output should be framed in a spirit of broad social understanding. It has already been emphasized that incomes do not consist of goods alone, but, in the final analysis, of the quality of life that is lived. With this qualification, the improvement of output is a desirable, and indeed an essential contribution to greater well-being. The average level of production in most British industries has shown a most striking increase since before the War and even during the past few years.

The values of average output given in the table above are the values added to purchased raw materials in the industries concerned. The whole of this added value is

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not, of course, paid out to wage-earners and the general level of wages is substantially below these figures. A part of the value created is paid out as interest on the money raised to provide the factory and machinery ; a part as profits to those who hazard their money in an enterprise that may fail ; a part as rent of the land on which the factory stands. These payments constitute parts of the money-incomes of the owners of capital or land.

The following tables give a picture of the average level of wages in a number of typical industries, and it will be seen that, relatively low as are the figures of average output, the wages paid are lower still. Averages, however, are misleading, and the figures do not preclude higher wages being paid to many kinds of labour in these industries.

### *Average Weekly Earnings of Male Workers in Certain Industries (in 1935)*

	£	s.	d.
Newspaper printing . . . . .	5	10	9
Omnibus and motor coach services . . . . .	3	14	4
General printing and bookbinding . . . . .	4	8	11
Chocolate and confectionery . . . . .	3	5	7
Silk and rayon . . . . .	3	6	10
Chemicals . . . . .	3	6	9
Tobacco . . . . .	3	19	7
Indiarubber manufacture . . . . .	3	7	10
Building . . . . .	3	1	5
Smelting and rolling of iron and steel . . . . .	3	11	2
Pig iron manufacture . . . . .	3	5	11
Boot and shoe making . . . . .	3	1	4
Engineering . . . . .	3	6	0
Woollens and worsteds . . . . .	2	17	11
Cotton . . . . .	2	9	4

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### *The Same Particulars for Female Workers*

	£.	s.	d.
Tobacco . . . . .	1	19	7
Boot and shoe making . . . . .	1	15	2
Hosiery manufacture . . . . .	1	15	8
Dressmaking . . . . .	1	15	9
Indiarubber manufacture . . . . .	1	11	2
Cotton . . . . .	1	8	6
Chocolate and confectionery . . . . .	1	12	6
Laundries . . . . .	1	8	1
Cutlery manufacture . . . . .	1	9	9

The total of wages paid out at these rates constitutes the "fund" from which is purchased the wage-earners' share of the total goods produced. The proportions in which the national income goes to the various economic groups in the community are approximately as follows :

### *Distribution of the National Income*

To wage-earners . . . . .	41 per cent.
To salary-earners . . . . .	25 "
As interest and profits . . . . .	25 "
As rents . . . . .	9 "

Wage-earners are, of course, numerically by far the largest group. It is clear that the £4,000 millions of goods and services annually produced must be distributed unevenly among the whole population. In fact 23 per cent. of it goes to 1½ per cent. of the working population. These are the persons in receipt of money-incomes of £1,000 a year or more. On the other hand, 90 per cent. of the working population—those with incomes of £250 a year or less—receive only 58 per cent. of the national income.<sup>1</sup>

<sup>1</sup> The figures of distribution of the national income are from C. G. Clark's *National Income and Outlay*



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The foregoing facts give a picture of the way in which the annual national income of goods is produced and of its distribution amongst its final owners. An improvement in general incomes depends upon a number of factors of which the following are the most important.

Better general education and technical training make for a more intelligent and adaptable population, which will be able to undertake its workaday tasks more effectively. Social conditions under which people work with a will, because they are getting a fair return for their work, are healthy and fit, and work in pleasant surroundings, also add to industrial efficiency. In many parts of the world the populations are unfit because incomes are so low, and incomes are low because the people are too enfeebled to produce more. Thus higher incomes may be themselves a contribution to greater efficiency in production.

A spirit of enterprise in the application of scientific knowledge to production is essential. There is a great deal of scientific research that is applied only very slowly in industry and agriculture because the channels of trade are choked up and mankind cannot distribute the goods that it can produce. For the utilization of new processes capital is required. It is plentiful in most industrialized countries, but still scanty in the world as a whole.

The actual physical distribution of goods lags behind productive capacity in efficiency. The forces of nationalism have played havoc with the old system of relative freedom of trade throughout the world. Goods are not produced because there is no confidence that present markets for them will exist in the future. Maximum wealth depends to a considerable extent upon the adoption

of the most favourable types of production in the various regions of the world. If sugar can be produced most effectively in Cuba or Mauritius, it diminishes the world's income when producers in those countries are ruined in order that beet sugar shall be grown in Europe. Wool from the sheep and petrol from the well are produced with less human effort than similar synthetic products. Everywhere, however, the world has been reorganizing its trade in a way that wastes much of the earth's bounty. This is discussed more fully in a later chapter.

The distribution of goods within countries through wholesalers and shops is often also much less efficient than production itself, with the result that the advantages of improved methods of production are absorbed by costly methods of distribution and do not reach the final consumer.

A study of consumers' needs and the degree to which they remain unsatisfied would give valuable guidance in improving the organization of trade. Healthier and happier people can exploit the world's resources more pleasurably and efficiently, provided the channels of trade are not blocked as the result of short-sighted policies.

## CHAPTER III

### WHY INCOMES ARE UNEQUAL

INCOMES are often grossly inadequate ; they are also grossly unequal. (Nearly one-half of the national product goes to one-tenth of the population, and nearly a quarter goes to  $1\frac{1}{2}$  per cent. of the population.) The mighty incomes of the few are like a Himalayan range against the foothills and plains where the many dwell. This inequality raises two questions—why it occurs, and whether it should be allowed to occur. The case is often made that incomes should be approximately equal, or at least more nearly equal than at present, on grounds of justice. On the other hand, it has been pleaded that the average increase would be almost negligible were the peaks of income levelled out over the plains. According to this argument the important thing is to increase the total wealth produced rather than to struggle for more equal shares.

The line followed in the present discussion is that any development that increases the incomes of the underpaid is to be welcomed. This, however, is more likely to be achieved by bringing home to the conscience of society that a large section of the population has not the means of attaining the basic needs of life than by abstract arguments about justice and equality.

The inheritance laws account for a great deal of the

inequality of possessions that exists. Where the rule of primogeniture (i.e. the inheritance of an estate by the eldest son) is accepted, greater inequality of wealth is generally found than where the law compels the sharing of an estate among the sons, as under the Code Napoleon in France. Inheritance duties in Great Britain now greatly reduce an estate on the death of the owner. Estates in land, in particular, have been rapidly broken up in recent years. Where an estate is in the form of stocks and shares, and similar industrial property, the inheritor starts with the advantage that he can gain an income from the interest and profits on this property and so may hope to add more to the estate in his lifetime than has been taken in taxes on inheritance.

We are interested, however, in the reasons for differences of income rather than in differences of wealth through inheritance. A man's labour, like any other commodity, is bought and sold in the market. The price it fetches is his wage or salary. Where he lives on interest or profits it is his property instead of his labour that he sells, or rather hires, for a price. The price of any commodity is determined by its scarcity in relation to the demands of people who can afford to buy it and want to do so. (The broad reason for differences in earning power is that some men possess qualities that make their services economically scarce and therefore economically valuable.) Scarcity alone does not create economic value. Bad eggs are scarcer than good ones, but are not proportionately more valuable. A man's qualities must be those that other people want to utilize, if his income from work is to be a high one. Such scarcities in human aptitudes are not necessarily the result of innate differences between men. They very generally arise from an expensive

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education, which is a form of investment by parents. A technical training such as that for the profession of solicitor or accountant is expensive and this creates a scarcity in the supply of men so equipped. Professional associations add to the scarcity by exacting fees and prescribing conditions that limit the number of entrants. Trade unions perform an analogous operation when they restrict the numbers of workers in any particular branch of production.

There are some kinds of aptitude that are due to natural ability or physical characteristics, rather than to acquired training. (The expensive education of barristers does not prevent their average income from being low.) The barrister with £30,000 a year must possess forensic abilities that mark him off from his fellows, and such rare natural qualities are in high demand by litigants. The large incomes of Hollywood stars are based upon the exploitation of personal characteristics, the screen representation of which will tempt forth the purchasing power of a vast multitude of people.

Any kind of skill, whether acquired by outlay of capital or by long application, may create a scarcity value for its possessor. (Generally speaking, managerial skill is rated at a higher price in the labour market than manual skill.) By a combination of good address, forceful personality, assiduity, and long service, the manager creates a position of relative indispensability in a business, for which the owners of the business are prepared to pay.

An aptitude that, in a capitalist society, has a great scarcity value is the business man's initiating and organizing faculty for producing goods to meet some keen demand. This aptitude, when successfully applied, leads to the largest incomes. When this happens there has

been usually some change in public demand which the successful business man is in a position to cater for. The circumstances are often fortuitous. A bicycle maker with vigorous personal qualities interests himself in producing motor cars at the beginning of the period when, through the development of rubber and the internal combustion engine, this new means of transport becomes practicable. An immense new demand puts him eventually into the high income ranks. Without the concatenation of external circumstances, his qualities might have been less "scarce" in relation to any demand that he was in a position to satisfy. Given such a set of circumstances, the possessor of qualities of vigour, foresight, courage, and command of men receives the highest prizes that the capitalist system has to offer.

A similar result is sometimes achieved through the exploitation of an invention where the monopoly rights given by patent create a scarcity that might not otherwise exist.

Thus the capitalist system may be envisaged as a series of changing mass demands acting upon the forces of production. The organizers of the means to satisfy these demands receive a generous return for their services. The largest incomes of all, however, are derived not from work but from the ownership of shares, land, and other capital.

Such large incomes are often justified on the grounds that men are not biologically equal and that great rewards are the fair return for qualities that are valuable to the community; that they provide an incentive to toil, risk-taking, and enterprise; and that without them demands would not be satisfied as promptly and as efficiently as at present.

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The present regulator, mass-demand, is an imperfect method of determining the sharing out of the national income ; although it may be the best that is available. The rewards are admittedly not in proportion to social deserts. Men such as artists and doctors, who render the greatest services to humanity, receive smaller rewards, and occasionally starve. Personal qualities, such as kindness or scientific curiosity, that are of infinite value in human relations are not adequately rewarded. The ability to satisfy the demands of the market is the sole determinant of incomes. The demand may be for cheap and nasty newspapers, which are socially harmful. But, failing some supreme body to make people want what they ought to want, what they do want is the best index we have to the means of achieving their real good. Such demands, so far as they can be expressed in terms of purchasing power, are met with a high degree of efficiency under our present methods. This is evident from, for example, the swift way in which the discovery of the methods of making artificial silk has led to the provision of cheap rayon stockings and underclothes for the masses of women. Given the existence of rapid changes in technical methods, and in the potentialities of satisfying new needs, the system under which great prizes can be gained for the successful exploitation of such potentialities is one which works from many aspects very well.

It has, however, this great fault, that the demands that it satisfies are the demands only of those with money. The concentration of much purchasing power in few hands means that some demands are for articles of luxury and ostentation. A part of the economic system is therefore devoted to meeting such effective demands. Needs, no less real, of people with small incomes do not

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become effective. The rapidity with which the economic system satisfies changing demands would be much more socially satisfactory if more needs had the chance of effective expression. "A bias in favour of the trades supplying luxury goods is given to production by the failure of the wage system to provide for family needs. There are 17½ million 'unoccupied' wives and children in the population. They outnumber employers, employed, and self-employed all put together. This army of dependants, which has no purchasing power directly behind it, represents a vast unsatisfied demand mainly for the primary necessities—food, clothing, house-room, and warmth." (Marjorie E. Green, *Family Allowances*.)

The contrasting of the highest incomes with the lowest, the millionaire's with the match-seller's, does not dispose of the question of inequality. The problem of the millionaire is largely irrelevant. If he is socially undesirable, he can be taxed out of existence. Existing taxation already goes some way to doing this. If he is economically useful, he can be retained. There is also the question of the inequalities between people among the great mass below the wealth line.

We have seen what are the circumstances that lead to the higher levels of income, namely, the possession of economically valuable qualities through education, training, application to one task, or natural characteristics. What circumstances create the other extreme of very low incomes? The lowest income groups are generally to be found among the ranks of the unskilled. Lack of any specialized ability puts the labourer into a very poor bargaining position against the purchasers of labour. It results from: scanty opportunity in early life to secure education and training, by reason of poor parental



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circumstances ; subnormal physical equipment ; or not finding the place in the economic world where natural aptitudes would have developed.

Any social survey shows how inadequate yet is the provision of education in the widest sense for a large proportion of the people. Education must include good feeding, satisfactory home life, industrial training, as well as teaching in the schoolroom. There is bound to be inequality whilst the nation produces sub-standard citizens.

It is also necessary that the young man and woman should be able to discover what their real capacities are, and what avenues exist for the exercise of these capacities. The Unemployment Exchange system began just before the War with the admirable intention of providing clearing-houses for information on employment. People wanting employment and people wanting employees were to register their needs at the Exchanges. This part of the scheme broke down under the strain of post-War unemployment. Some such machinery would form a necessary part of a national system of directing workers into the jobs that they can best perform. Another effort towards the same end is the use of vocational guidance after tests of aptitude as worked out by the National Institute of Industrial Psychology.

Human inertia sometimes leads men to stay in localities with which they are familiar, or to slip into the occupation of their fathers, whereas more enterprise would have led them to more advantageous work. Not knowing where opportunities exist is probably, however, the more powerful factor. Restrictions upon migration from one country to another also result sometimes in men's not finding the theoretically best openings for their labour.

If men had a more equal start in life, and if they found

work that made the most of their natural powers, inequalities would still result from differences in industriousness, from innate differences in mental or physical powers, and through the accidents of life. The social system would not, however, as now, condemn many to the work and low rewards of unskilled labour. The development of the machine may, indeed, call for more labour that is only semi-skilled. The skilled craftsman is needed to create the machine, but the machine minder needs only general intelligence. But the average level of output and income must rise as the old type of unskilled labourer performing irksome manual tasks is eliminated. Many of these tasks are left to be done by hand only because there is a supply of ill-equipped and economically weak labour that will accept the low wages paid.

When a man has spent half a lifetime in a particular job, and the job then disappears through the loss of markets for the product he helps to make, he is reduced to the low-income level that is provided under the Unemployment Assistance scheme. Broadly, this assistance is still based upon the principle of "less eligibility" that was adopted under the new Poor Law after 1832, i.e. that not working must not be made more eligible than work. Hence the man who loses the market for his labour falls to the level of the lowest paid worker. Efforts are made to train men in these circumstances for new employments, and assistance is given to migration to different parts of the country; nevertheless the problem is an intractable one.

Thus far we have considered only differences in earning power. Income *per head* is greatly influenced by the number of dependent children in the family. Recent

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investigations have shown that a large number of children below working age is one of the most powerful reasons for very low average incomes per head in many working-class families. To meet this situation the general adoption of the "family allowance" system is often proposed. Under this system, wage payments are not made on a flat basis to each worker irrespective of his family responsibilities, but are graduated, so that the single worker gets less and the married man more in proportion to the number of his dependants. The great merit of this system of wage-payment is that it is a recognition of the necessity of providing incomes according to need, up to the point where ordinary human requirements are freely obtainable.

Women's wages are in general below those of men, and this provides a good illustration of the way the wage system works. The wages paid to any individual are not determined solely by the value of his work to the employer, but by the ease with which a similar worker can be obtained. The supply of women's labour is larger than men's, relatively to the number of jobs open to them. Women in industry usually do unskilled work, such as that involved in simple machine operations, and do not perform work that has necessitated apprenticeship or long training. Women are also "weak sellers" of labour, either because they have some family support and can subsist on lower earnings, or because they are not organized in trade unions. Employment in business and industry is not a lifelong matter for most women (except in textiles where married women work), since they expect to leave work somewhere in the twenties and get married. They have not, therefore, the same incentives as men to establish better conditions.

We have seen, in the course of this chapter, that the ownership of property and the system of income fixation are such that, although the working section of the population of 47 millions produces £4,000 millions of goods a year, 42 million people receive only some £2,200 millions. Those who can in some way or another put themselves into a semi-monopoly position get the largest slices of cake. They must be able to offer something that other people with money, directly or indirectly, want very much and cannot readily get elsewhere. The size of the slice that comes to those in this position may or may not be in proportion to their value to the community. This principle runs through the whole of income determination, although those with the intermediate size incomes are in positions of only very limited monopoly. Those who have not been fortunate or energetic enough to get themselves into this position in the labour market receive bread instead of cake, and sometimes only "the husks that the swine do eat."

It has to be admitted that this is an unsatisfactory form of social organization, inasmuch as a large section of the people obtains incomes that hardly keep body and soul together, and the State recognizes this by making many additions to income over and above that provided by the wage system. All services provided by the State at below cost to the recipients, such as education, health services, free milk to school children, are to be regarded as socially provided income.

The existence of large groups of people at low incomes itself prevents the national income from being as large as it might be; because low income people are often by force of necessity less socially efficient than they could be. So we are involved in a vicious circle: the national

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income does not increase because the income producers live below their maximum potentialities ; and people do not become fitter and more intelligent because their incomes are too low.

The national income, moreover, needs some dynamic force to prevent wastes occurring. This dynamic is to be found in an active state of money-demand for commodities. At present there is active saving and usually active demand for the luxuries and semi-luxuries, but many of the barest necessities are in what is termed over-supply. In consequence, commerce is restricted and the development of resources held up. If the general level of common incomes were higher, the dislocations that at present occur and create " the paradox of poverty in the midst of plenty " would be greatly lessened.

The foregoing discussion of inequality leads to the conclusion that progress requires that close attention be paid to the extent to which present incomes provide reasonable lives for their recipients. So far as incomes are inadequate, measures should be taken to increase them up to the level of physiological adequacy. The subsequent improvements in efficiency would probably greatly increase the national income and so lessen the need for a penal re-distribution of the existing income.

## CHAPTER IV

### HOW FAMILIES LIVE ON £150 A YEAR

WE have already seen that the product of industry is distributed very unequally amongst the population in Great Britain. The following striking analysis of personal incomes is the result of an estimate by Mr. Colin Clark, and is given in his book, *National Income and Outlay* (see Book List at end).

<i>Amount of Income</i>		<i>Numbers in receipt.</i>
Over	£10,000	10,000
£2,000	to 10,000	100,000
1,000	to 2,000	195,000
500	to 1,000	481,000
250	to 500	1,249,000
125	to 250	5,827,000
Under	125	11,800,000

Thus 90 per cent. of income-earners in Great Britain receive amounts up to £5 per week, and 60 per cent. receive only £2, 10s. per week or less. In this chapter we examine the levels of consumption of goods attainable on the lower planes of income which the great majority of the people inhabit.

Purchases out of relatively small incomes can be grouped under three headings—fixed charges, for such items as rent, insurance, travel to work, trade union subscriptions, and the like; expenditure on food, clothes, tobacco, newspapers, and other necessities; residual

spending on holidays, entertainment, renewal of furniture, wireless sets, motor cycles and cars, better clothes. The first and second headings represent spending upon necessities and have the first claim upon income, but in bad times the quantity of food bought or its quality has to be sacrificed and renewals of clothes have to be put off. The third group of articles is bought out of surplus income after sheer necessities have been purchased, and is the group in which expenditure leaps ahead as soon as income is big enough to provide a margin over the needs that have first to be anxiously provided. But, indeed, some of these semi-luxuries are so necessary if life is not to be intolerably dull and narrow that many families buy food of poor quality and insufficient variety in order to be able to afford them.

A great deal of valuable information has recently come to light on the question of the quantities and kinds of food consumed by people of different incomes in Great Britain. There are few people who are unable to secure enough food to keep body and soul together, but a sharp distinction must be drawn between food that is sufficient to maintain physical existence and food of the quality and quantity that will build up and maintain good bodily health. A pioneer study was that of Sir John Orr, F.R.S., an expert on human and animal nutrition (*Food, Health and Income*—see Book List) in which it is shown that no less than half the population of Great Britain receives incomes too small to buy the diets necessary for complete health and fitness. When wages are spread over whole families, the resulting money income per head is often only large enough to provide the barest necessities, and this involves economies upon food, the greatest necessity of all. There is frequently

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more than one wage-earner in the family, however, and it should not be inferred that 90 per cent. of *families* have total incomes below £250 a year.

In the figures of income given above, the wage- or salary-earner is considered as an individual. But the worker is often the breadwinner for a family, several of whom are not "occupied persons" in industry. We have seen that of the 47 million inhabitants of Great Britain 21½ millions are "gainfully occupied." Thus less than half of the population provides the income for the whole. Of the rest there are 17½ million "unoccupied" wives and children, and nearly 2 million registered unemployed, the balance being made up of the aged and of non-registered unemployed, including persons living on incomes from investments.

This unoccupied half is generally far from being parasitic and idle, for the working-class wife is often one of the most industrious members of the community. If we are to know anything about the sufficiency of incomes to meet needs, we must know the average level of incomes available per person, and not merely the incomes of employed persons.

Orr and Clark have shown that nearly 50 per cent. of the people in Great Britain live upon incomes of 20s. per week or less. The actual proportions at different levels are as follows, according to Mr. Colin Clark's estimate :

### *Average Weekly Incomes per Head of the Population*

Group	I.	Receive up to 10s. per week	And constitute 13·7 per cent. of the population
"	II.	10s. to 15s.	16·9
"	III.	15s. to 20s.	16·5
"	IV.	20s. to 30s.	25·3
"	V.	over 45s.	8·1



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It was found, moreover, that while 13.7 per cent. of the population falls into the poorest group, as many as 25 per cent. of children under 14 years of age were in this group, and that over 70 per cent. of the children were in families where the average weekly incomes are 20s. per person or less.

*The Social Survey of Merseyside* (see Book List) discovered that the average income of working-class families in Liverpool was 62s. 6d. If a family could depend upon this coming in with complete regularity throughout the year, it would be equivalent to an average annual income of £162, 10s. 7577

According to Sir John Orr, the average amount spent per week on food is 4s. in Group I., 6s. in Group II., and 8s. in Group III. He reaches the conclusion, which is supported by other investigators, that all the people in the lowest three income-groups—comprising nearly half the population and nearly three-quarters of the children of the country—are too poor to buy enough of the foods, such as milk, butter, meat, and fruit, required to keep them in sound health and resistant to disease.

They do not maintain that half the population is at or near starvation level, but only that these people would be infinitely more fit and happy if their food needs were more adequately met. Since the discovery of the vitamin by Sir F. Gowland Hopkins in 1911, it has been increasingly realized that a sufficient supply of these elusive constituents of food, and of certain mineral salts and proteins, is absolutely essential to health and disease resistance. Without them rickets, scurvy, and other ills—and probably dental decay—appear. The protective elements are contained in milk, eggs, fish and meat,

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fresh fruit, and vegetables. A satisfactory diet therefore must contain quantities of these foods, which are, unfortunately, the most expensive ones. A diet of fish and chips, supported by bread, jam, and tea, would keep a man alive, but would result in impairment to strength in the long run.

Lest this should be thought to be food faddism, we must remind ourselves that in countries like Austria, where the population suffered acute food shortage in the immediate post-War years, the tuberculosis rate was correlated with the absence of foods containing the protective elements. Moreover, it has been shown in a series of measurements of schoolboys, that the average height of boys at two public schools where the food was adequate was several inches greater than that of council schoolboys and unemployed youths who were measured. Laboratory experiments on rats have shown that when several generations of the animals were given diets containing plenty of milk and fresh vegetables, the ultimate progeny were large in size and had glossy coats and bright eyes, whereas animals starved of these foods grew undersized and had poor coats and dull eyes. Indeed, in another experiment in which rats were fed on diets equivalent to those of Glasgow unemployed, the animals died !

If the human diet is lacking in the "protective" foods, certain deficiency diseases (of which rickets in children is one) will result, and the general resistance to illness is lessened. The figures quoted show that nearly three-quarters of the children who will form the workers of the next generation are in families that are unable to buy really adequate and satisfactory food supplies. Poorer families spent about half their incomes upon food,

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and if food is so insufficient, housing and clothing must also show sad deficiencies.

Mr. B. Seebohm Rowntree (see Book List) has made the following careful calculation of the expenditure necessary (at 1936 prices) to purchase the minimum requirements for a family of father, mother, and three children:

	Town.		Country.	
	s.	d.	s.	d.
Food . . . . .	20	6	18	6
Rent . . . . .	9	6	5	6
Clothing . . . . .	8	0	7	0
Fuel and light . . . . .	4	4	3	2
Household sundries . . . . .	1	8	1	4
Personal sundries . . . . .	9	0	5	6
	<hr/>		<hr/>	
	53	0	41	0

These items of expenditure were on a very sparse and carefully calculated scale. The food budget, for example, was lower than that regarded as necessary by Sir John Orr. Mr. Rowntree's conclusion was that "millions of our fellow citizens belong to families whose breadwinners earn less than my minimum figure . . . the incomes of a considerable proportion of unskilled labourers must be substantially increased if their elementary human needs are to be met."

Thus the minimum family income of a town family with three children must be about 53s. per week or £138 per year. According to the figures quoted earlier, at least 14 per cent. of the whole population and 25 per cent. of children fall below this level.

The *Merseyside Survey* made the following calculation of the "poverty line," that is, the level of expenditure below which families fell into acute destitution.

## EARNING AND SPENDING

### *Expenditure by family of man, wife, one infant, and two school children*

						Per week.	
						s	d.
Food	.	.	.	.	.	19	7
Rent	.	.	.	.	.	6	5
Clothing, cleaning, and light	.	.	.	.	.	6	10
Fuel	.	.	.	.	.	2	5
Insurance	.	.	.	.	.	1	4
Transport	.	.	.	.	.	1	0
						<hr/>	
						37	7

They found that 16 per cent. of the working-class families in Liverpool were below the poverty line, and that a further 14 per cent., or 30 per cent. in all, were below Rowntree's standard of human needs. They added: "It is an ironical reflection that, although production has in recent years so enormously increased, yet in one of the most important areas of England, a country which boasts of a relatively high standard of living for its workers, in round numbers some three thousand families out of the random sample of seven thousand that were investigated failed to secure what Rowntree termed 'the bare essential of a civilized life.'"

The results of a survey of the standards of living of working-class and lower middle-class families in Bristol were published at the beginning of 1939. The results were even more striking, as Bristol is a prosperous city with a number of active sheltered industries. Moreover, the inquiry was undertaken in 1937 when the recovery from the trade depression was at its height. *The Standard of Living in Bristol* (see Book List) com-

pared family incomes with the estimated weekly cost of minimum needs, taking as its standard a lower figure than Rowntree's. It found that 11 per cent. of the working and lower middle-class families were below this level, i.e. were in acute poverty, and that another 21 per cent. were so near to the poverty line as to have a constant struggle to make both ends meet. Low wages, unemployment, and the loss of earning power through old age or sickness were the principal causes of primary poverty. Thus for these and other reasons nearly one-third of the working-class families of one of Britain's most prosperous cities were living, in a boom year, in or near to conditions of want.

Dr. G. C. M. M'Gonigle, the Medical Officer of Health for Stockton-on-Tees, has declared (see Book List) that Sir John Orr's estimate of ten million people in Great Britain living at or below the threshold of adequate nutrition is an under-estimate. An investigation by him of a sample of 141 families in which the breadwinner was employed, containing 745 persons in Stockton-on-Tees, gave the following distribution of family incomes:

<i>No. of families.</i>	<i>Family Income per week.</i>
46	25s. to 35s.
40	35s. to 45s.
31	45s. to 55s.
17	55s. to 65s.
7	70s. to 80s.

Thus about 117, or 80 per cent., of these families had incomes at or below the estimated minimum of 53s. per week. This minimum holds true only for a family with three dependent children, and it will be noted that the size of the family plays a major part in determining the

adequacy of income. A man and wife with no children, or whose children have reached earning age and left home, would do very well on a wage that would spell bitter poverty to a family where there are several young children. The average number of children per family must clearly be above two if the population is to be maintained, as two children per family would only maintain numbers if every man and woman married and no children died.

It will be seen, therefore, that assuming a normal family of five, including the parents, an income of £150 a year is just sufficient to provide minimum requirements, but probably quite insufficient to provide ideal dietaries according to modern medical knowledge. 11,800,000 persons, or 60 per cent. of the population, receive less than £125 per year, but of course not all of these are married men with children. Some of them are single women and some adolescents contributing to their family incomes.

In respect of food alone, the conditions in the lower income levels—Orr's Groups I. to III.—are far from satisfactory. To this inadequate nutrition must be attributed the poor physical condition of a large body of the population.

The other essentials upon which income must be spent are house shelter, clothing, fuel, and household sundries. An adequate diet alone will not ensure health. It is further necessary that families should have a warm and clean house with ample accommodation. Overcrowded and damp houses are as great a source of ill-health as malnutrition. It is less easy to lay down precise standards of housing needs than it is for food. A family with three children requires a house or flat with at least

three bedrooms, a living-room, kitchen, and bath. Despite post-war building activity and the slum-clearance schemes of local authorities, there is still an acute shortage of suitable accommodation for town and country workers at rents that families on the lower levels of income can afford. Rent, for accommodation often falling far short of the ideal, takes about 25 per cent. of the smaller incomes, so that if nearly 50 per cent. is spent on food, there remains a quite insufficient margin for other necessities, and nothing at all for saving and small luxuries. The allowance for rent is 9s. 6d. per week in the budget just given, but in fact rents for a three-bedroom house are often considerably above this figure.

The worst cases of overcrowding and unsatisfactory housing accommodation are found in the slums of the large towns. Overcrowding occurs most often where there are a large number of children in the family, for rent rises sharply with the number of rooms. The evil results of ill accommodation are borne mainly by the next generation of the working population. A survey of the living conditions in Shoreditch (see Book List) showed that although less than a quarter of the population was discovered to be overcrowded (*i.e.* living in houses where there were more than two inmates per room—children under 10 being counted a half person and babies under 1 neglected), nearly two-thirds of the children were living in overcrowded households. This drives them to play out-of-doors. Where few parks or open playgrounds are available, and houses have only small and unattractive backyards—often cluttered up with dustbins, coal dumps, or washing lines—out-of-doors generally means in dusty and dangerous streets. A

quarter of the houses in this survey had basement or semi-basement rooms. Many of them were damp, over a third had water available out-of-doors only, and water had in many cases to be carried up two or three floors. Almost a half of the families shared their water supply, only 14 per cent. had a proper bath in the house, and over two-thirds had no facilities for bathing in the home. Less than half the cases in question had private lavatories; of the others many were shared by three or more families. Roughly three-quarters of the lavatories were out-of-doors.

Under these living conditions the children rarely got holidays away from home, and many suffered from rheumatism, anæmia, weak heart, and other such illnesses.

The other relatively large items of essential expenditure after food and rent are clothing and fuel for heating, lighting, and cooking. Seebohm Rowntree estimated that the very minimum average weekly expenditure for clothing that will keep the body dry and warm is 3s. per week for a man, 1s. 9d. for a woman, and 1s. 1d. for a child, or 8s. for a family of five. But here, just as with nutrition, a reasonable standard demands something more than a bare minimum. If in food there are physiological considerations that indicate the optimum diets, in clothes there are equally important psychological considerations to be taken into account. As Rowntree realistically remarks: "A girl rightly demands not only tidy and suitable working clothes, but garments which she can wear in the evenings and on Sundays." This is not a question of vanity. Respectable and moderately neat and attractive clothes are essential to a man or woman for the maintenance both of their self respect and of their jobs. Rowntree added: "After making a number of



inquiries, I came to the conclusion that the allowance for clothes, including shoes, for a woman worker who has to keep herself, cannot be put at less than 5s. 3d. a week." M'Gonigle found that the families in the 45s. to 55s. income class actually spent an average of 5s. 3d. per week per family, which is substantially below the 8s. which is reckoned to be the minimum for decent living.

Miscellaneous items of necessary or near-necessary expenditure are fares, newspapers, tobacco, occasional entertainments, household utensils and cleaning materials, medicines, instalment and insurance payments. The residual amount left for these things after food, rent, clothes, and fuel are paid for is apt to be small indeed in families at or below the £150 a year level.

An entry on the credit side of the account must be made, however, for "socially-provided income" that is not paid for in cash by the recipients, namely, education, free milk in schools, medical attention, free libraries, subsidized housing, and so on. The extent of such services is a measure of the inadequacy of personal incomes.

We may summarize this brief discussion of a vast and vitally important problem as follows. Most of the working population of this country get less than £5 per week; a substantial part gets less than £2, 10s. per week. When the recipients are without dependants, or have only one dependant, they may be tolerably well off. Many unskilled workers, however, receive wages too low even under those conditions. In families at this level, where there are several dependent children, the income is generally insufficient to cover necessities.

We have the evidence from malnutrition, where fairly precise standards of measurement have been established, that fully 10 per cent. of the population is under-

nourished and 50 per cent. could be better fed with advantage to their health. Housing cannot be so readily evaluated, but is clearly inadequate for many, if not most, of those on low-income levels. The amount available for spending on clothes is usually only just enough for essential purchases and renewals.

In these three directions there is a fount of "demand" that is at present unrealized. It could give a great impetus to economic activity if ways could be found to release it and make it effective. The consumption of milk, eggs, butter, and fruit goes up sharply as income increases; the amount spent on rent rises directly with income, which shows that as soon as they can afford it, the poorer members of the population desire satisfactory accommodation and are willing to pay for it. The demand for clothes and boots is highly elastic, and greatly increased quantities are sold when the price is reduced, as by the multiple tailoring firms.

The result of inadequate incomes is the subnormal health of a large section of the community. This presents us with a physically deteriorating population; in the failure to maintain in satisfactory working order one of the factors essential to the maintenance and increase of the national income.

The consequences of poverty upon health are illustrated with great force by a comparison of vital statistics in poor areas with a high level of unemployment and in better-off areas. The Registrar-General's figures for "average expectation of life at year 0" are 49.6 years in Northumberland and Durham, against 62.3 years in the agricultural eastern counties and 55.6 years in the country as a whole. The death-rate in southern prosperous counties like Surrey, Berkshire, Dorset, and Herts, is between

80 per cent. and 85 per cent. of the rate for the whole country, whereas the rate in Lancashire, Durham, and Glamorgan is over 115 per cent. of the national average. Some industrial towns in the North and Wales show death-rates 35 per cent. to 40 per cent. above the national rate, and very nearly twice the rates in prosperous country towns. The infantile mortality, likewise, is 40 or under per thousand live births in Cambridge, Amersham (Bucks), or Hatfield, and 108 per thousand in Hebburn or Maesteg (Glam.).

Hence the conditions in which many of our fellow-citizens live appear certainly to shorten their very lives, as well as to impair the quality of those lives. Much has been done to diminish poverty and mitigate its effects. The great survey of Life and Labour in London undertaken by Charles Booth in the 'nineties of last century and undertaken afresh a few years ago showed that there had been a notable elimination of the more degrading forms of poverty in the interval. Nevertheless we are realizing ever more clearly the effects upon happiness and the whole content of life of subnormal feeding, housing, and education.

## CHAPTER V

### HOW THEY LIVE ON £500 A YEAR

ASCENDING the income scale we come to the section of the population whose incomes range round £500 a year. We include within this group all families whose incomes are over £250 and less than £1,000 a year. Approximately 20 per cent. of families are stated to fall into the lower half of the group (£250 to £500) and approximately 4 per cent. into the upper half. Many families, however, contain more than one income-earner, and many fewer than 20 per cent. of the working population have personal incomes of £250 to £500 a year. The "muddle class" thus stretches from skilled factory workers and the "black-coated proletariat" of lower-grade office workers, at one end, to professional men and smaller employers at the other. Typical occupations in the lower half (according to a family survey conducted by Sir William Crawford and published in *The People's Food*) are : owner of small to medium-sized shop ; owner of small workshop ; younger members of professions ; technical and managerial staff in business concerns ; executive and higher clerical civil servants ; the bulk of middle-aged and older bank and insurance officials , key workers in certain trades. In the upper-middle group, where the breadwinner's income is

### £500 A YEAR

from £500 to £1,000 a year, typical occupations are : owner of small factory or large retail shop ; minor executive in business ; manager and assistant manager ; owner of small commercial concern ; medium grade professional men, *e.g.* members of small architectural firms, medical practitioners with smaller practices, upper grade civil servants.

The distribution of incomes within this middle section of the population is not exactly known, but it is probable that a majority of families is to be found not much above the £250 a year level. Thus the numbers of the comfortable middle class are considerably less than 24 per cent. of the population, and no more than 4 per cent. fall into the £500 to £1,000 a year category. These incomes are those of the breadwinners in the family, and the income per person in the family, which is the real measure of purchasing-power, depends upon the size of the family. It does not always go up as income increases, for, as Sir John Orr has pointed out, "an average income of 30s. per head per week is reached by a man earning £550 a year, with a wife, four children, and one domestic servant. It is also reached by a manual worker earning £3 a week with only a wife to support."

The middle-class group as a whole is above the anxiety line in regard to its primary requirements. Orr has estimated that there are serious food deficiencies where the income per person is 20s. a week or less, and the weekly expenditure on food is 8s. a week or less. Although a considerable number of families above the £250 a year level fall into this group when there are three or more children or other dependants, the middle classes have generally the wherewithal for an adequate

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and varied diet. The lower-middle group spends an average of 12s. 6d. a week, 29 per cent. of its income, on food; the upper-middle group spends 16s. 2d., or 18.3 per cent. of its weekly income. Families below the £250 a year level spend from 40 per cent. to 70 per cent. of their whole means on purchasing food, and their weekly expenditure averages only half that of the middle class.

As income rises, more money is spent on the relatively expensive foodstuffs, such as butter, meat, and fruit, and on meals taken in restaurants. Data on food consumption at different levels of income show that the consumption per person of bread and potatoes is about the same at all levels of income, but slightly smaller at higher incomes than at low incomes. The consumption of cheese rises up to a point as income rises, and then falls sharply. Condensed milk and margarine are, of course, consumed less by the rich than by the poor. The consumption of milk, butter, eggs, meat, fish, fruit, and vegetables rises sharply and continuously as income rises, showing that there is a very large unsatisfied demand at lower income levels even for such primary necessities. In other words, the demand for these commodities is "elastic"; the demand for bread and flour is "inelastic."

The fullest information we have that shows the greater variety of diet in the middle and wealthy classes, and also changes of consumption due to social status, is contained in Sir William Crawford's survey, which was based on information furnished by 5,000 families at all levels of income. The following table shows the frequency of consumption of different foods at breakfast in the different income classes :

## £,500 A YEAR

*Percentage of families consuming the items  
named.*

	<i>Wealthy class</i>	<i>Upper- middle</i>	<i>Lower- middle</i>	<i>Skilled working- class</i>	<i>Unskilled and unem- ployed</i>
Bread . . .	79.9	85.8	83.1	82.8	91.7
Butter . . .	36.7	41.8	54.0	60.5	56.6
Margarine . . .	—	—	—	3.2	17.5
Dripping . . .	—	—	.1	.1	2.7
Marmalade . . .	58.5	50.6	36.6	13.1	5.2
Jam, honey, & syrup	4.3	2.6	2.9	8.0	7.3
Porridge . . .	28.9	24.7	26.6	25.8	18.3
Other cereals . . .	18.0	21.9	21.4	14.5	7.0
Eggs . . .	70.4	67.4	64.9	52.8	31.6
Bacon or ham . . .	62.3	59.9	58.3	53.0	31.7
Fish . . .	12.3	6.4	5.3	2.4	2.7
Sausages . . .	6.6	5.8	3.1	2.2	3.0
Fruit or fruit juice	31.0	22.3	15.9	4.6	1.3
Tomatoes . . .	4.3	4.5	4.5	3.5	2.2
Tea . . .	85.8	88.6	93.5	97.6	98.3
Coffee . . .	43.4	17.6	8.1	2.2	1.2
Cocoa . . .	4.0	1.1	3.0	5.4	2.3
Milk . . .	9.2	8.2	6.2	4.5	2.4

Thus not only does the consumption of bacon, eggs, and other foods go up, but the consumption of some items—marmalade, coffee, fruit juice—becomes almost a mark of social class. Similar differences are seen at other meals; and the time and designation of meals vary with income. Breakfast is taken later as income rises, midday “dinner” becomes “lunch,” high tea gives place to supper, and supper to dinner.

Leaving aside such marks of caste for the moment, we shall consider the consequences of a rise in income from the purely economic standpoint. The range of human wants is almost limitless. The satisfaction of wants is restricted for most people by the size of their incomes. His purchases being limited by his income, a man has to

make a mental evaluation of the relative worth to himself of a little more of one thing as against a little more of all the other things he could buy with the same amount of spendable income. At low incomes the range of substitution is small, since the whole income is earmarked for absolute necessities. A seat at the cinema may be balanced against saving for a new pair of boots, for Tommy. If the price of butter goes down, more butter and less margarine will be bought. If the price of tea falls, either more tea may be bought, or the same amount of tea may be bought, and the money saved spent on other things. When the £250 a year level is reached the possibilities of substitution begin to be greatly extended. A rise in income with prices unchanged is the same thing to the owner of the income as was a fall in prices to the owner of a small income. More may be bought of things previously consumed, or the same or only slightly increased quantities of these things, and larger quantities of things not previously available. It has just been seen that a rise in income scarcely affects the quantities of bread or potatoes purchased. More appetising, healthful, or luxurious foods are bought in greater quantities. There soon comes a point, however, when other articles are preferred to a little more of any kind of food. Expenditure may be allocated to higher rents for better housing accommodation, more expensive education for children, travel, and to a multitude of articles for current consumption.

The following table (prepared by Mr. A. E. Feaver-year) shows the principal directions in which the national income is spent. Although it has no reference to the different amounts spent at various levels of income, the table suggests the commodities or services for which the



# £500 A YEAR.

demand is likely to be elastic, as a family's income rises.

*Total spent in Great Britain  
in 1932.*

	<i>£ millions</i>	<i>Per cent. of total.</i>
Food . . . . .	1,107½	30½
Maintenance of the home. . . . .	580	15½
Clothes . . . . .	314	8½
Direct taxation . . . . .	406	11
Liquor . . . . .	232½	6½
Smoking . . . . .	143	4
Travel . . . . .	261	7½
Entertainments and sport . . . . .	82	2½
Sickness, accidents, and State Insurance . . . . .	106	3
Religion . . . . .	33	1
Reading . . . . .	47	1½
Miscellaneous expenditure . . . . .	150	4
Saving, including new houses and furniture. . . . .	200	5½
<b>Total . . . . .</b>	<b>3,662</b>	<b>100</b>

*(The Economic Journal, March 1934.)*

To a certain extent the real income of the middle classes is less than their relatively greater purchasing power would indicate by reason of the fact that they spend sums, through convention or necessity, upon education, medical services, and other items that are socially provided for persons at lower levels of income. Direct taxation is, of course, higher also. By the latter means there is a certain levelling of incomes, at least to the extent of ensuring that primary education, certain health services, milk and meals for school children, housing, maintenance in old age, at minimum levels, are available to all.

## EARNING AND SPENDING

The middle-income classes, however, provide with their higher incomes standards of living that are often so much above those of the poorer groups as to place them in a different social class. Not only are housing and living amenities better, and the variety of articles purchasable much greater, but there are greater educational opportunity for children, greater personal freedom (showing itself for example in access to better paid occupations and longer holidays), and above all greater security in sickness and old age and in the event of failure of employment. All these things are aspects of their larger purchasing power. Opportunity, freedom, security are purchasable commodities that are to a large extent denied to people with small incomes.

The middle-income group is a heterogeneous collection of families, merging at one end into the working class and at the other into the wealthy class, which it is a little dangerous to classify or discuss as a uniform group. It is, however, convenient and roughly accurate to divide it into the lower-middle and upper-middle classes, and to treat these as economic and social units. The standard of comfort attained by the lower-middle group, in the families investigated by Crawford, is summarized in a way that gives a reasonably adequate picture of the group as a whole :

"Regular maid rare ; occasional domestic help ; telephone infrequent ; second-hand or cheap car, or good motor-cycle in country districts and smaller provincial centres ; detached or semi-detached house, five to eight rooms with garden ; children usually at secondary school."

The upper-middle group is described as possessing :  
"at least one maid ; telephone ; medium-priced car ;

detached or semi-detached house of more expensive kind in suburbs, with eight to ten rooms. Children at private school or good grammar or secondary school."

It is pertinent here to discuss the significance of class as a social institution. It will have been evident that movement up the income scale brings with it much more than an improvement in economic well-being. It brings a division of the population into social classes that are marked off by small but none the less important differences of social behaviour and outlook. The class system follows roughly the income classification of the population, although the dividing line between classes is vague and is affected by factors other than income. The usual designation of classes is: working class, lower-middle class, upper-middle class, and the wealthy class or plutocracy, with which is included the aristocracy, which is based economically mainly upon the long possession of agricultural estates. The distinguishing marks of a social class are such social habits as mode of speech and dress, time and manner of eating, way of occupying leisure time, and attitude towards current social questions. While it is possible to overstress the significance of class, and, for example, to assume that all men at a given level of income conform to a fixed pattern of thought and behaviour, nevertheless class does represent a social reality. There is not much evidence of a levelling of class distinctions, although there has probably been an acceleration in the diffusion of fashions in clothes and ways of speech, through the cheapening of production of some kinds of clothing, especially women's, and through the wireless.

Ginsberg has shown that there has been a slight increase

in mobility between the groups over one or two generations (see Book List), and class is not, of course, a rigid social and economic barrier, as were the estates of the Middle Ages. Nevertheless, with the maintenance of an extremely lopsided distribution of incomes, the continuance of a social stratification based upon it is not surprising. Class, however, arises partly from tradition. The United States has probably a more lopsided distribution of incomes than Great Britain, but has greater social equality.

Many industries depend for their existence upon middle-class expenditure. The structure of the productive system is thus a reflection of the way incomes are distributed. If all incomes were equal, many industries and retail outlets that now exist would not find customers, whilst others would be larger than they are. Middle-class consumption is in a sense the norm to which the consumption of all will conform as the world grows wealthier. The articles they consume are generally desired, and greater consumption is only restricted by low incomes. As an American writer put it, most men "desire to work with reasonable regularity and energy, if by so doing they may live in a world of electric lights, talking pictures, radios, silk stockings, and electrical refrigeration." Higher real incomes will bring first food, then houses and clothes, then all these desired consumption goods more fully within the grasp of all. To the artist and the Marxist the comfort and the outlook of the bourgeoisie are anathema. On the other hand, Hume in the eighteenth century addressed himself to the middle class because "the great are too much immersed in pleasure and the poor too much occupied in providing the necessities of life to hearken to the calm voice of

reason." Betwixt these extremes the economist has to seek ways to raise the standards of health and wealth, leaving the cultural problems that arise when wealth accumulates to be settled on non-economic grounds.

## CHAPTER VI

### HOW THEY LIVE ON £2,000 A YEAR

THE wealthiest section of the population numbers about 300,000 families; their incomes lying in the region of £1,000 a year and upwards. In the aggregate they receive about 23 per cent. of the national income, although they number only about  $1\frac{1}{2}$  per cent. of the population. In approximately 100,000 families the income is £2,000 a year or more. The following figures showing the numbers of the rich are taken from sur-tax statistics relating to the year 1931-32. The numbers vary from year to year according to the state of trade. Following a slump, they fall below 100,000, and in good years they rise above that number. The incomes given are those before income tax and sur-tax are deducted, and are therefore greater than net spendable incomes.

<i>Incomes</i> (£ per annum).	<i>Number of Persons.</i>
2,000 to 3,000	44,885
3,000 to 5,000	31,770
5,000 to 10,000	18,674
10,000 to 25,000	6,988
25,000 to 50,000	1,179
50,000 to 100,000	350
Over 100,000	111
	<hr/>
	103,957

## £2,000 A YEAR

It would be absurd to discuss the spending by the upper-income group of the population in the same terms as the spending by the lower-income groups. The family budgets of the poor have a certain uniformity because their incomes are only large enough to be spread over a limited number of necessities. When income rises well above this level the channels of expenditure take on an infinite variety as the idiosyncracies of the spenders have full play. A wealthy bibliophile will spend upon early printed books the thousands that another will spend upon living in Grand Babylon hotels. A newspaper recently noticed the will of "Mr. Albert Grave, who has just died at Bristol, where he lived in a single room on 27s. 6d. a week inclusive; but who left £113,801 for the reduction of the National Debt."

Some information about the consumption of the group we are considering can, however, be given. Mr. Seeholm Rowntree, when he was working out the cost of a minimum adequate diet for working-class families, took occasion to contrast this diet with the consumption of food by comfortably-off people. He obtained sample menus from the stewards of two London clubs. Typical daily meals were:

### *Breakfast.*

Bacon and two eggs.  
Bread, butter, and marmalade  
Coffee.

### *Luncheon.*

Roast beef or mutton  
Potatoes and greens  
Stewed apples and cream  
Bread, butter, and cheese.  
Coffee.

### *Dinner.*

Soup  
Fish.  
Meat.  
Potatoes and greens.

Ice cream.  
Bread  
Butter.

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It is hardly necessary to stress the fact that the diets of the well-off are likely to be adequate, but it is interesting to compare their adequacy with the adequacy of those of people whose income is small. Rowntree's comment on the sample menu is : "The food value of this dietary works out at 202 grams of protein and 5,148 calories of fuel-energy per man per day. Those who consume these meals were practically all of them engaged on light work, such as that of civil servants, professional men, etc., and their work from the standpoint of food requirements would be classed as 'light.' Making allowance for this, the standard which I allow for unskilled labourers engaged in 'moderate' work, viz., 100 grams of protein and 3,400 calories of fuel-energy per day, is little more than one-half the nutriment contained in the club dietary, which was certainly far in excess of physiological needs."

An estimate has been made in the United States of the proportions in which families with incomes of from \$12,000 to \$16,000 (£2,400 to £3,200) spend their incomes upon various groups of goods for consumption. The proportions are -

Expenditure on food	. . .	10 per cent.
Maintenance of the home, including domestic service	. . .	16.20 per cent.
Other consumption services	. . .	12.23 per cent.

Thus a high proportion of the spending was upon personal services rendered directly, and this in fact is a well recognized characteristic of spending as income rises. Any surplus over absolute necessities in the smallest incomes is spent on going to the pictures, a football match, or "the dogs"; and upon a holiday to the seaside. As income rises, part is spent on domestic help, a gardener,



medical services, etc. From the highest incomes a greater share is paid out directly to other people for services rendered than is paid for commodities. A considerable part of these incomes, however, goes in what has been termed "the compulsory consumption of Government services," that is, in taxation.

It will be observed that in the figures just given only about 50 per cent. of the incomes is recorded as spent on consumption. A large part of high incomes is not spent at all in the ordinary sense but is invested, that is, is spent indirectly upon producers' goods. A consideration of the spending of the 16 per cent. of the national income that goes to persons with £2,000 a year or more therefore becomes a discussion of the question of saving and investment, since these incomes are the fund from which much of new investment is made.

Large incomes may be looked at from three points of view :

(1) They may be regarded as the inevitable result of the system of private ownership of capital and relatively free enterprise. If this system is regarded as reasonably satisfactory (subject to necessary social control) in that it exists and works, producing the right goods at the right place and the right time, then the distribution of incomes it produces is just something that follows automatically from its operation.

The Italian economist, Pareto, has sought to show that there is a definite relation between the incomes of different sizes and the numbers of people receiving them in all countries for which data exist. In other words, however much the distribution is made more equal it always tends to come back to much what it is at present. If Pareto's law really holds (and it is not certain that it

does) this first view is a correct way of looking at the distribution of incomes.

(2) The gradation of incomes may be justified as producing essential economic incentives to hard work, risk-taking, and enterprise. Certain it is that many rich business men have shown magnificent qualities in each of these directions. Such qualities are necessary in a progressive economic system, and it is wise that the man who is capable of exercising them should have before him the bait that will draw them out. What is not certain is whether the possibility of becoming wealthy is the only economic incentive that will achieve this. Advocates of greater equality of incomes urge that power and prestige are at least as effective baits as money, and that these can be provided without great inequality of wealth. They cite civil servants and the salaried heads of semi-public corporations who for salaries of moderate or at least not excessively large dimensions render services characterized by all that can be desired of enterprise and devotion to their work. Such men do not, however, provide a body of industrial risk-takers. They do not use foresight in backing new inventions, putting their whole resources behind some new process and staking their chance of a large competence upon its success. If the private individual does this and is successful, society gains with him. If he fails he is the principal loser. The salaried official either prefers the safe path to the unknown and uncharted one, or, if he takes risks, does so with immense public resources where the risk of social loss if he makes an error, from which he himself may not suffer, is very great. This is briefly the case for large incomes as an economic incentive. It can be neither proved nor disproved unless

you can follow the fortunes over a long period of two similar societies, in one of which the incentive is present and in the other absent.

Enlightened contemporary opinion on this point is probably well represented in this conclusion by Mr. J. M. Keynes. "For my part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day. There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their full fruition. Moreover, dangerous human proclivities can be canalized into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which, if they cannot be satisfied in this way, may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement. . . . But it is not necessary for the stimulation of these activities and the satisfaction of these proclivities that the game should be played for such high stakes as at present. The task of transmuting human nature must not be confused with the task of managing it. Though in the ideal commonwealth men may have been taught or inspired or bred to take no interest in the stakes, it may still be wise and prudent statesmanship to allow the game to be played, subject to rules and limitations, so long as the average man, or even a significant section of the community, is in fact strongly addicted to the money-making passion." (*The General Theory of Employment, Interest and Money.*)

(3) A third way of looking at large incomes is as a necessary pool from which investment to maintain and develop capital equipment can be provided. Such in-

vestment is essential. The first developments of large-scale industry occurred in Great Britain because there existed a class of wealthy merchants and landowners with liquid capital. During the nineteenth century large sums of saved income were needed for the building of railways, steamships, and multifarious industries. Any new method of production needs heavy outlay on factories and plant. Moreover, existing machinery wears out and must eventually be replaced. Investment involves the laying out of money well in advance of any possibility of return upon it. It must be made by some person or institution that can afford to part with money for a time, and does not have to spend every penny of income upon immediate needs. If all persons had an equal income, which was the average of every one's present incomes, they would certainly spend nearly the whole of it upon articles for consumption, and would leave but a small surplus for capital development, unless the State stepped in and made the necessary savings through the medium of taxation. As things are, the savings from which replacement in industry and, in particular, the opening up of new resources are financed are largely provided out of the margins between what the rich and relatively rich spend upon consumption and their total incomes. Investment takes place both in Great Britain itself and overseas. In the past Britain has taken the leading rôle in providing the capital without which the countries of "wide open spaces" could not have been settled and made into vast farmlands. At the present time there is much less foreign investment, because many past loans are in default, and there is no longer confidence that new investments will be repaid as to either capital or interest, or that the countries seeking the investments will be able

to sell the goods they hope to produce. For this reason British savings now largely flow into home industry, which has enjoyed conditions of "cheap money" for several years. In the world as a whole there is still a shortage of capital. Before standards of living can be raised in the more backward countries, roads and railways must be built; agriculture and industry must receive large sums of working capital. Whether this capital is to be provided as in the past by the great creditor countries such as Great Britain and the United States cannot be foreseen until political and economic stability have returned to the world. The standard of living of the creditor countries is itself closely related to that of the countries with poorer capital equipment, since unless they can export the manufactures upon the production of which their own high standards of living depends, they cannot continue the importation of the fruits of cheaper agricultural production elsewhere. However much Great Britain may desire to develop its own industries and agriculture, it must still avail itself of the principles of international specialization of production, relying in the main for its prosperity upon the high efficiency with which it can produce industrial goods and certain services—such as shipping and insurance—and exchanging these for goods in the production of which other countries have comparative advantages. The way in which the national savings are made in Great Britain has, however, undergone a rapid and significant alteration in recent times. Vast savings and investments are now effected by institutions, particularly insurance companies and building societies. Local authorities also accumulate huge balances by way of sinking funds. Much replacement of plant and machinery is now financed by com-

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panies out of reserves accumulated from undistributed profits. Middle- and working-class people also save large sums in the aggregate through the Post Office Savings Bank and through payments to building societies. We cannot in this chapter enter into a detailed survey of the way the nation's savings are made, but we may cite a remarkable conclusion by Mr. Colin Clark upon the existing situation. "The outstanding fact of the situation is that three channels of saving—namely, the obligatory savings of local authorities, trading profits held back by company officials, and savings for security by the working and middle classes—provided enough to meet nearly the whole of investment requirements in recent years, and more than enough at the present time. Large private incomes have ceased to count as a source of saving."

Nevertheless it is desirable to distinguish between investment of the safe kind, such as in house building and the construction of roads, and industrial development of a risky and speculative nature. Such investments may be in mining enterprises abroad, in financing any new process of production, and generally in any economic pioneer work at home or overseas. The savings of middle- and working-class people can never be jeopardized in such forms of investment, nor as a rule can the funds of large firms or institutions. There seems, therefore, to be still a need in any progressive economic society for a supply of savings from people who are well enough off to be able to hazard them. The largest incomes are probably not derived from personal work or even from profits but from the successful outcome of speculative investment, and particularly from the increase in the capital values of such investments.

## CHAPTER VII

### THE REDISTRIBUTIVE PROCESS

AN account was given in Chapter III. of the causes that make for the inequality of incomes. The chapters that followed gave a picture of the standards of life achieved at various levels of income, and of the economic significance of the lopsidedness of income distribution. The picture is not complete without some details of the way the State steps in to add to the incomes of the poorer sections of the community, in order to secure for them certain minimum levels of adequacy.

A complete analysis of the incomes of the people of Great Britain has to take account of their "real" incomes, rather than their money incomes. From money incomes must first be deducted payments such as income tax or contributions to unemployment and health insurance, before we arrive at the net money income that is available for spending on consumption, or for saving. The value of the net money income is in its turn affected by the level of prices. An income that is unchanged at £250 a year over several years will represent a higher real income if the prices of the things it is spent on have meanwhile gone down. As the general level of prices fluctuates quite considerably, this consideration is not unimportant. During the slump of 1929-33, for example, the incomes of many people in employment were reduced, but the prices of home-grown and imported food-

stuffs fell so heavily that real income was often not reduced at all. The principal burden of the slump fell on those who became unemployed, who of course suffered severe reductions in their standard of life. To measure changes in the purchasing power of incomes the Ministry of Labour prepares its index of the cost of living, which shows the percentage change from month to month in the prices of the whole group of articles upon which working-class incomes are spent.

To arrive finally at people's real incomes there must be added in those services and goods that are provided by the State without direct payment by the recipient. These include education, certain medical services, milk for school children and nursing mothers, meals for school children, old-age pensions, unemployment benefit, roads. Some of these are provided free, some for payment at less than cost.

These services represent to some extent a recognition by the community of the evils that arise from great inequality of incomes, and an effort by it to ensure that the recipients of the smallest incomes secure the necessities of an adequate life. Since satisfactory education could not be provided out of the incomes of many of the population, and since a man is an incomplete citizen without education, the State provides it free, and moreover, makes it compulsory to the age of 15.

Now all such services must be paid for, and they are paid for out of taxation which is collected in one form or another from every earner or spender of an income. Nearly a quarter of the national income is collected by central or local authorities of the State in various kinds of taxation. To the extent that any man (or class) of the population receives more in free services than he



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pays in taxation, a redistribution of the nation's income is being carried out by the State.

The range of the State's activities in this direction has been steadily widening. As long ago as the reign of Elizabeth the State acknowledged its responsibility for "the housing and feeding of the indigent and deserving poor." The modern industrial system, however, grew up in the nineteenth century at a time when the conviction was strongly held that the less the State interfered with the earning and spending of people's incomes the better. Gradually the pressure of necessity overcame the arguments that the State should let well alone. A cholera epidemic in the early nineteenth century first forced it to provide efficient drainage systems for the population. The field of State-provided, compulsory education was gradually widened. The deplorable legacy of bad houses resultant upon unregulated industrialism and private building has compelled the State to subsidize working-class housing. Even roads at one time were a private affair, and the user paid tolls for the roads as he used them. In 1911 a system of compulsory State insurance against the risks of unemployment and illness was instituted. Unemployment has been so widespread, however, that the benefits paid out have exceeded the premiums contributed, and the State has found the balance. Thus the unemployed received a transfer of income, partly from employed workers, partly from firms, and partly from the body of taxpayers.

Income received in this way has been called "income from civil rights." Each person as a citizen is regarded as being entitled to certain rights from the State, as he has certain duties to it. Equality of treatment before the law is one such right. Controversy is still acute on what

"rights" a man is entitled to in the economic sphere: whether, for example, he is entitled to bare maintenance if his employment fails him from a collapse in business activity, or whether he should be given an income that will enable him to remain an efficient self-respecting citizen until work is again available. In practice the economic goods, the possession of which is recognized as a right, have greatly increased in number. Not only education is now given to children whose parents lack the means to buy it, but the good food without which education is wasted. Two and a half million children now receive free milk in schools, and 140,000 are given free meals.

The extension of "income from civil rights" to food has been a result of the plenitude of food and the anomaly of "poverty in the midst of plenty," coupled with a growing recognition of the damage to health and efficiency caused by poor and insufficient nourishment. Poor nursing mothers are now able to get free milk, and potatoes have been distributed on a limited scale at reduced prices by the Potato Marketing Board. (In the international field, wheat has been distributed by the Government of the United States to underfed populations in Spain, as a means of reducing American surplus crops.) There is thus a growing tendency for governments to step in to supply products and services where incomes as distributed under ordinary economic forces are insufficient to take the products off the market.

The Government redistributes incomes through its taxing power. Taxes take two forms—direct taxes, of which the principal is income tax; and indirect taxes, such as the tax on tea, and import duties. The tax revenue of Great Britain in 1936-37 was £947 millions, of which 53 per cent. was direct and 47 per cent. was

indirect. Approximately another £160 millions is raised by local authorities as rates. Direct taxes bear most heavily on persons above the £250 a year level and become heavier as income increases. Indirect taxes are borne by all, but are a much greater burden on the poor than the rich. According to an estimate by Mr. Colin Clark (see Book List), the taxes on drink, tobacco and matches, tea, sugar, entertainment, and miscellaneous items paid by the average working-class family amount to about £16, 18s. per year. The same writer has made a calculation of the transference from rich to poor through taxation. The services beneficial mainly to the poor are : unemployment and health benefits, old age, widows', and war pensions, education, public health, and housing. In this calculation, payment of interest on the national debt is regarded as mainly a transference from the pockets of income tax payers to wealthy persons or corporations holding Government bonds ; and the upkeep of roads is regarded as benefiting mainly the well-to-do owners of private cars. (Some State activities, such as defence, cannot be so allocated.) The annual cost of the former services is about £500 millions, and of the latter about £260 millions. The poor, however, pay only about one-third of the total taxes, and about £90 millions are transferred annually from the incomes of the rich to swell the real incomes of the poor. As, however, considerable amounts of national debt are held by friendly societies, co-operative societies, and similar bodies, and as the benefits of road transport certainly do not accrue only to the rich, it would seem that this estimate is on the low side.

This is a far cry from the Gladstonian era when the income tax of 7d. (now 5s. 6d.) in the pound was

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imposed as a temporary expedient, and when Gladstone could lament that "the facility of maintaining the income tax has been a main cause of extravagance in Government." The Harcourt "death duties" which followed in 1894 were the progenitor of another form of wealth transference, whereby large estates on inheritance pay in tax a considerable fraction of their total value. Thus in 1936-7, ten large estates having an aggregate value of £15 millions paid £7 millions in death duties. Such duties are payable in cash, securities, or land, and the result has been the rapid breaking-up of landed estates during the past thirty years.

The following table gives a summary of the current extent of social services, beneficial mainly to the lower-income sections of the population :

## *Social Services, 1935-36*

	<i>Expenditure.</i> £ millions.	<i>Persons</i> <i>benefiting</i> millions.
Unemployment—		
insurance benefits . . . . .	52	12 6 <sup>1</sup>
transitional payments and unemployment allowances . . . . .	47	
Health insurance . . . . .	38	19 2 <sup>1</sup>
Pensions—		
widows and orphans . . . . .	45	2.1
old age . . . . .	44	1 9
war . . . . .	41	0 9
Education . . . . .	112	7 9
Housing . . . . .	48	1.8
Poor relief . . . . .	52	
Health services . . . . .	25	
	504	

<sup>1</sup> These are total numbers under the schemes, not the numbers drawing benefits.

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The whole population below the £250 a year level, which has a total earned income of about £2,300 millions a year, thus received additions to its real income valued at £500 millions (part of which, however, it had paid for itself in taxation and insurance contributions). The net value of these services, regarded as transferred income, is perhaps £100 to £150 millions.

As in the time of Gladstone, complaints are still heard about the growth and magnitude of public expenditure. The House of Commons had the following resolution before it in February, 1938 :

"That this House, while recognizing the great measure of economic recovery and social progress achieved during the last five years and the exceptional expenditure entailed by the necessity of rearmament, views with concern the continued growth of expenditure by the central government and by local authorities, and is of the opinion that His Majesty's Government should do everything in their power to lighten the burdens imposed upon all classes of taxpayers and rate-payers."

There are some points to be made for and against this argument. If the rate of income tax is raised above a certain but unknown level the total yield of the tax will not increase, because persons subject to income tax will be discouraged from enterprise and will work less hard. There is thus a definite limit to the extent to which it is economically advantageous for the State to absorb the medium and higher incomes in taxes. Moreover, from the point of view of economic activity the taxing process involves the transference of spending

power from private hands to the Government's hands. The position may be reached at which the diminution of private spending will create more unemployment than the increase in governmental spending will relieve.

On the other hand we have the growing recognition that governmental spending is essential to bring the real incomes of the lowest-income groups up to the socially desirable minimum. There is an increasing number of services which must, it is generally agreed, be distributed by the State, if the population is to be enabled to live and work at a reasonable level of efficiency.

This problem is not merely a humanitarian one, it is also one of economic necessity. In a progressive State the human factor in industry must, even on the narrowest economic considerations, be maintained at least as efficiently as machinery and farm stock are maintained. But whereas the industrialist's interest is to tend his machines, repair or replace failing parts, and make provision against obsolescence, and whereas the farmer constantly improves his farm animals, it is nobody's care, except the State's, to see that human beings are as healthy, as intelligent, and as able to work well and happily as they can be.

It has been seen in an earlier chapter that the way in which incomes are spread over the population creates a demand for, and brings into being factories for, the production of many semi-luxury articles that can only be afforded by the relatively prosperous. Net social advantage may demand that greater weight should be given to demand for primary necessities. This is the more likely now that many primary necessities are being produced in excess of the power of communities to purchase them. Social stability therefore appears to necessitate

at least the maintenance, and probably the increase of purchasing power by the masses for food, clothing, and house-room, up to the point where the anomaly of over-production is eradicated. The production of luxuries and semi-luxuries is in itself an activity to be encouraged. Their diffusion "in widest commonalty spread" is the objective of economic activity. There is probably considerable advantage in maintaining the possibility of some men's obtaining levels of purchasing power much higher than those of other men, as an incentive to risk-taking, enterprise, and sacrifice of ease and leisure. It has to be recognized, however, that under the free play of competition the production of many articles of minor intrinsic value is profitable whilst other commodities that are urgently needed are either not produced, or if produced cannot be purchased for lack of purchasing power. While the personal incomes of many millions of the population remain low, therefore, some measure of transfer from richer to poorer will continue to be necessary. If other measures can be found to increase real incomes—the raising of wages or the lowering of prices—redistribution will become a less essential part of social policy.

Large-scale unemployment is a recent social phenomenon for which the only alternatives are to find the cure, or to distribute costly palliatives; for the hundreds of thousands of men who lack employment through no fault of their own cannot be left without incomes. The financial burden of unemployment was at its maximum in Great Britain in 1931-32, when the expenditure on unemployment benefits and assistance was £111 millions, towards which workers' contributions were £38 millions, employers' contributions £48

millions, and £25 millions were contributed by the State. Since then the annual disbursements on account of unemployment have fallen. In default of a reactivation of the economic system—the world's most pressing need—the unemployed are maintained on a sparse minimum income, and such additional aids as training camps and the attraction of new industries to the "special areas" are given.

Old age pensions are a different form of State-provided income that are made necessary by the impossibility of saving from very small incomes to make provision for the declining years. Thus the State now accepts the responsibility of guaranteeing incomes at some sort of minimum level to those who are unable to provide such minima for themselves. The only consideration now open to serious controversy is whether the levels should not be raised; for once the principle of guaranteeing an income to the economically weakest members of the community is accepted, it appears to be poor policy to make those incomes so small that the recipient lives on in declining health, hope, and initiative. The practical difficulties are not to be overlooked, for it is inexpedient to make the incomes that are obtainable as unemployment benefit greater than those obtainable as wages. The way out of this difficulty is to secure the raising of the very low wages that are paid in some occupations. The majority of men, in any event, probably prefer working at a satisfactory job to idleness, and the conditions of payment of unemployment assistance can be made sufficiently stringent to discourage occasional deliberate avoidance of work.

Certain developments are possible towards increasing the real incomes of the lowest paid families by means



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other than additions to their money incomes. It is perhaps visionary to look forward to the time when some of the basic necessities of life—such as bread and milk—are distributed freely, being paid for by a flat rate as water now is. Certainly it would solve some pressing difficulties of the producers of these commodities if they were made available to all mouths according to need. Short of this, it would be possible to make commodities available at differential prices, richer sections of the community paying more and receiving more elaborate retail services, and poorer sections paying low, perhaps subsidized prices, and collecting the goods on a "cash and carry" basis.

Ultimately, however, all such forms of assistance are but a *pis aller* to a state of affairs in which every normal able-bodied man and woman can earn for himself or herself the income necessary to provide goods and services according to the individual's own taste. Certain services are most appropriately distributed by the State out of taxation. Defence is an obvious example. But apart from these, the social services are a palliative for disorders caused by *imperfect economic organization*. Better food and housing would undoubtedly diminish the cost of national health services. All State expenditure that makes for greater health, intelligence, and efficiency in the present and rising generations should result in a larger national income, and thus save future generations the cost of palliating acute poverty.

The argument that social services cannot be afforded because competing nations do not provide them is met on precisely this ground, that the justification of social services will be found in increased output, lower health bills, and a more intelligent and adaptable industrial

population. Countries with low wages and poor conditions are not more effective competitors; their output per head is generally as proportionately lower as their level of wages.

War is the great wrecker of national budgets, and the greatest barrier to national progress towards higher standards of living. It leaves a legacy of taxation to provide war pensions for disabled men, and a burden of debt upon succeeding generations. The current expenditure upon national debt interest—largely on borrowings for the Great War—is about £210 millions, and upon war pensions over £40 millions. The expenditure from revenue and loans upon the defence forces in 1938-9 is about £340 millions. More than half the tax receipts are required to pay for the last war and to prepare for a possible future war. Much of this expenditure represents a redistribution of income of a different kind from that already considered. Money spent by the State on current needs draws away productive resources from the manufacture of goods for consumption or goods to increase future wealth, to the manufacture of articles of war that may be essential under the conditions of the time, but are intrinsically useless. Peace and economic welfare go hand in hand.



## CHAPTER VIII

### WAYS OF PRODUCING MORE

PERHAPS the greatest social task before mankind as it approaches the mid-twentieth century is to discover how to utilize more fully its existing resources of men, knowledge, organization, and capital.

Higher levels of consumption can ultimately come only from greater and more efficient production. We have seen in previous chapters what the national income really is—a flow of goods and services resulting from the joint labour of the employed population; and we have seen how unequally these goods and services are distributed among the population. Nevertheless, even supposing that there were more equal incomes, the raising of the level of production would still be essential. There are both great need and great opportunity for increasing the output of the economic system.

Greater production ought not to mean harder and more prolonged work. Adequate leisure is one of the necessary constituents of a satisfactory standard of living. The problem is to bring the output of the least efficient more nearly into line with that of the most efficient. The people who work hardest are not those that produce the largest output of goods per head, but the land-workers and the unskilled labourers who, equipped with very little in the way of modern tools or specialized skill,

carry on an unequal struggle with the forces of nature. It is idle to say that because there are gluts and surpluses, we can by the application of this or that nostrum immediately produce all that we need in four hours work a day. The problem is more complex than that. What is true is that man at his most efficient levels as a producer is capable of producing material goods at a greatly magnified rate, compared with his achievement in all past times, and that this improvement in output per unit of physical labour has not yet reached its zenith. A man unaided by a machine is never likely to attain aught but a life of toil, or an existence limited to the simplest necessities. Man's principal aid in his fight to adapt the resources of nature to his own ends has been machinery. The use of machinery presupposes the setting of men to work at highly specialized tasks. When this is done the results of an hour's labour can be greatly increased. A further necessity of such a system of production is a highly developed organization for bringing together the men, machinery, and raw materials, and for distributing the finished products.

This is the system that exists in Great Britain and other industrialized countries as a result of the industrial revolution of the eighteenth and nineteenth centuries. So great has been its effect upon productivity that the average output of goods resulting from one hour's work in industry increased about fivefold between 1860 and the present day. This has been reflected in a multiplication of wages by about  $3\frac{1}{2}$  times and a fall in average hours from 60 to 46 per week. This rise in the output of goods per man was not completed with the general adoption of machinery and the coming of the industrial age, but is actively going on. In British industry the average out-

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put per operative increased by about 40 per cent. between 1924 and 1935, and there is no reason to suppose that it will cease to rise. In the United States output per worker expanded by about 15 per cent. between 1929 and 1933. Every one is familiar in a general way with the means by which this has been brought about. Industrial plant is constantly being modernized, and mechanical methods are adopted in operations that were formerly performed entirely by hand. Examples could be multiplied. The great Ebbw Vale works in South Wales has recently installed a vast new continuous sheet mill of American pattern for rolling sheets (for tinplate, etc.) which is much more economic than other British mills, provided a large continuous throughput can be maintained. The production and assembly of motor cars is highly mechanized, so that the number of cars produced in relation to the number of workers employed is much higher than it was ten years ago. Provided that the demand for the commodity is increasing, industry usually finds the way, not merely to meet the increasing demand, but to meet it at lower costs per unit. The maintenance of demand for the products is therefore of first importance in securing the efficient employment of complex machinery and organization, with all that this means in reducing the human labour required per unit of output. More is said of this below. Other less obvious factors have increased the general efficiency of labour. Mechanization of office methods; improvements in rail, road, sea, and air transport; the development of hire-purchase finance; all these and similar improvements in organization contribute to the general raising of output.

Suppose that, under conditions of rising productivity such as now exist, 1,000 men in a works produce twice

the volume of goods that 1,000 men working as hard produced at some previous date. Suppose, too, that such conditions were general throughout industry. Then the whole working force of the population would be turning out double its previous output. Society would have the possibilities of enjoying double its income of goods for the same amount of work, or the same income of goods for half the hours of work; or any intermediate solution. Admittedly, this is not the way it appears to any individual worker in a factory or office where improved machinery has been adopted. His wages may go up, but other workers will be put off, and he works as hard as before. Nevertheless, as a social problem, increasing productivity leads on towards the time when men should be able to choose between the alternatives of higher incomes for the same work and less work for the same incomes. It is to be hoped that society will have the sense to choose fewer hours of work and more profitably-spent leisure, for the idea has been prevalent too long that work alone should be the chief occupation of the lives of the mass of men; as a *Times* leader recently put it: "that production alone is virtuous, and consumption slightly immoral."

The most spectacular improvements in output have hitherto been found in industry. Something approaching an agricultural revolution is, however, taking place in methods of cultivating the soil. The increasing use of machinery in tilling, harvesting, and other farm operations is one aspect of this. There were 16,681 motor tractors in use in England and Wales in 1925 and 46,420 in 1938. The combine harvester enables two men to reap 50 acres of grain a day, whereas one man could cut by hand only one acre a day. The use of machinery in milking and

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butter-making has considerably increased the output of butter per unit of human labour employed, and the world output of butter increased by 35 per cent. between 1927 and 1934. By improved breeding, the yields of animals and plants have substantially increased. The average annual yield of milk per cow in Denmark increased from 1,350 litres in 1870 to 3,200 litres in 1934; and the yield of eggs per hen in England and Wales rose from 75 to 120 between 1913 and 1934. Grains, sugar-cane, and root crops have also increased in yield and resistance to disease as the result of research work by biologists and chemists. Thus in agriculture, no less than in industry, mankind is in the midst of an epoch of rapid change. The last forty years may well be regarded in the future as the period of the Agricultural Revolution, which paralleled, though a century later, the Industrial Revolution in manufacturing.

These spectacular advances in production have taken place at the same time as the rise of another phenomenon—the mass unemployment of men and resources. Many millions of workers in the world are either not employed or are only partially employed. Men who have been long unemployed often lose their skill, and in the short run, if they were re-employed, the *average* level of output per man might be lowered. Nevertheless the total output would be increased, and we cannot regard the striking increases in productivity by employed men with equanimity while a part of the working population is compulsorily idle. It is sometimes asserted that unemployment is the result of the increasing adoption of machinery, which leads to the displacement of workers. To a certain extent this is true, but large-scale unemployment is much more the consequence of man's failure so

to organize world trade that the goods produced are distributed to consumers. Production and trade require a certain stability, and at present tariffs, quotas, and exchange restrictions create arbitrary and changing bottle-necks which are the main cause of industrial maladjustment. A second cause is the "trade cycle," that alternation of business activity with business depression that mankind has not yet learned how to control.

Some men who are employed are less efficient than they could be by reason of lowered vitality through bad conditions, or because they are not equipped with the implements of modern life and work. The general levels of output can only be raised to their maximum when all men are able to work, and work under the same conditions as those who are most efficient.

Not only man-power is under-employed but factories and machinery also. The data for Great Britain are scanty, but in the United States some inquiries have been made into unused productive capacity. According to one such investigation, made by the Brookings Institution of Washington (see Book List), the American industrial machine was working at only 80 per cent. of its potential capacity even during the boom period of 1925-29, and in the slump which followed only 60 per cent. of capacity was being utilized. By full capacity these investigations meant the output that would be attained by all available workers and all existing plants, working full time, but without assuming any new inventions or improvements in business organization. They were also careful not "to assume that because a coal mine or a canning factory turned out a certain volume of product during its best week that it could produce 52 times that much in a year, or, because certain textile



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mills double or treble shifted at certain times, that the whole industry could as a practical matter operate on a full two- or three-shift basis. The maximum for many lines of production is determined by the total number of workers of a particular skill who are available, and the total operations of our economic system as a whole cannot exceed the total labour force available at any given time of peak demand. The key test to which all the separate estimates were to conform was that of 'continuous simultaneous operations' under practical running conditions." (*Income and Economic Progress*.)

It is only fair to point out that this idea of surplus capacity is not universally accepted. The improvement of machinery is always going on, and when a new machine is put into use, less efficient ones in other factories will continue in existence for some little time before they are finally scrapped. Economic progress presupposes that there is a considerable amount of overlapping of this sort, and it is often denied that this represents the sacrifice of output that the figures suggest. There is, also, always likely to be a certain amount of misdirected investment, that is, the erection of factories in a spirit of optimism to exploit some invention that does not work, or to cater for some demand that is not there. The American investigators were able to point out, however, that when the industrial machine was speeded up under the stress of exceptional circumstances during the Great War, there was an expansion of about 15 per cent. in output. It is almost certainly a reasonable assumption that British industry could produce 15 per cent. to 20 per cent. more commodities from its existing factories than it ever does produce, if there were some powerful stimulus to output such as a war. Most years are not peak years, but years

leading from or to a slump. In these years nobody doubts that output is below the maximum, for the fact is there for all to see. The characteristic which distinguishes a slump is the existence of unemployed men and under-employed factories and farms; and slumps arrive with apparently deterministic regularity. We have had such anomalies as farmers being paid (in the United States) not to produce wheat and pigs.

It is clear, then, that there have been great improvements in the productivity per man in industry and agriculture, and that at the same time a part of our productive resources is persistently under-employed. If standards of living are to be raised to desirable levels, still further improvements in productivity will have to be achieved, and the way of employing man-power, capital, and natural resources to the full will have to be found. As the American investigation already cited well says: "It must be evident to anyone who has travelled any considerable distance from his comfortable home or his prosperous neighbourhood that we have not, even in our periods of busiest prosperity, produced enough economic goods to make a comfortable standard of living for our total population. Whatever fears may be entertained as to 'excess capacity' relate entirely to an excess beyond the needs of a comparatively small privileged class which is able to command under our present system of distribution a disproportionate share of the goods turned out by our present economic system. If we attempted to supply everybody on such a plane, we should immediately be confronted by a condition of under-production and deficient capacity and the need for seeking better organization and more efficient techniques. . . . Since the coming of the industrial revolution, the

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technical possibilities of high productivity have advanced so rapidly that the group attaining to good subsistence levels has enlarged considerably and it seems morally certain, if not statistically demonstrable, that a modern industrial nation as richly endowed as the United States could actually achieve this age-old goal of at least moderate well-being for all its population." (*Income and Economic Progress.*)

It is impossible to make prophecies about the future application of science to industry and agriculture, about future probable improvements in organization, and about inventions yet to be made. There seems little doubt that the present rate of improvement of productivity in industry will be maintained. Inventions and improvements in technique are constantly being made, and are almost immediately put to use. To a certain extent, however, production in industry is kept down by cartels which maintain prices, control output, or otherwise regulate the production of member firms. International cartels exist in the following industries: electric lamp bulbs, baths, matches, electric cables, and others, and there are cartels and combines in Great Britain in many other trades. In agriculture a different situation exists. There is almost a plethora of scientific knowledge, which is waiting for application when farmers understand its value and possess the capital to put it to effect. The Government spends £700,000 a year on agricultural research in Great Britain. The total spent in the world must be several millions annually. The improvements that have already taken place in crop-yields and economy of farm working have previously been mentioned, but farmers would certainly adopt improved methods more readily if they were not producing under the shadow of

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"gluts" in many branches of agriculture, and if agriculture were not for this reason often an unprofitable occupation.

There are some important branches of social life that have so far proved less amenable to methods of increased productivity than have manufacturing and agriculture. These are the distributive trades and personal services generally. A high proportion of the cost of foodstuffs to the consumer is accounted for by distribution charges. Thus, out of 26d. per gallon paid by the consumer in Great Britain for milk, only 10d. goes to the farmer, while 11d. goes to the retailer and 5d. goes in transport costs. There are allegations in milk retailing of uneconomic operation through the duplication of milk rounds. Throughout retail distribution consumers seem to expect expensive services such as delivery to their doors, the stocking of many brands, and advertising. Indeed, as society gets better off it seeks more and more services such as those just mentioned, and such also as cinema entertainments. Many personal services cannot by any means be speeded up so that output is increased as in manufacturing. The business of distribution of commodities, however, is probably susceptible to some further rationalization. This is particularly necessary in the retailing of food and necessities to the poorer groups of the population, to whom unnecessary increases in the price of the product are of grave importance. There is much scope for the investigation of the means of getting increased output per head in the distributive industries, comparable with those obtained in production.

Most of the data given in this chapter have referred to the highly developed countries, especially Great

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Britain and America. In less developed countries, the provision of capital is an urgent necessity before they can even begin to reach the standards already attained in the more advanced countries. We may rightly and properly look forward to rising standards of living in the world as a whole, such as are made possible by present knowledge, but we must recognize that the saving and investment of capital is here a problem of the first magnitude. "An enormous outlay in equipment is necessary before every one can enjoy the advantages of the new inventions of the past fifty years. This can be seen by comparing a primitive dwelling in a backward country with a modern house with water, electric light and power, air-controlled temperatures, radio, refrigerator, Hoovers, and other labour-saving devices, garage and good-surfaced roads." (Professor A. L. Bowley—see Book List.)

Finally we reach a point to which too little consideration has been given in the past. To utilize economies in production and enable knowledge and productive resources to be used to their utmost, we must have effective demands for commodities. Millions of people need the products of industries where there are "surplus capacity" and unemployment. Industry needs behind it a driving force comparable to that it receives in time of war. Such a force is to be found in a lively state of demand. Rash prophecies about the possibility of producing all that we need in a four-hour day have been discounted in this chapter, but the tenor of all the evidence is that productive capacity has been increasing rapidly, that full capacity is rarely if at all utilized, and that further strides forward are essentially practicable. If we concentrate on production alone such a change is not likely to come about as quickly as most of us wish. We must see that

consumers can buy the goods that we can produce. We cannot establish Utopias by a stroke of the pen, but we can begin by seeing that minimum levels of wants are satisfied universally. Such action will itself give a fillip to the productive machine, and will result in some of the bottle-necks of "over-production" being broadened out. In short, we must realize that consumption is not "slightly immoral," but is the sole end of all economic activity. Unless we devote more study and practical action to this side of the economic problem, we run grave danger that production will never get out of the chaos of restriction and under-employment that it has been in since the end of the War of 1914-18.

## CHAPTER IX

### THE WORLD OF SURPLUSES

FOR several years past now the world has had "surpluses" of many of the commodities that are most needed by consumers. To understand the causes of this anomalous state of affairs we must go back to the nineteenth century, when the present system of international trade in raw commodities was created. Britain became rapidly more urban and industrial, and lived by exporting manufactures to the rest of the world. The population practically doubled between 1861 and 1931. At the same time overseas countries that were being supplied with both manufactures and emigrants by Great Britain began to produce agricultural goods at prices much below those possible to British agriculture. There grew up a division of labour between the industrial, urbanized areas of Europe and America and the large-scale agricultural producing countries overseas. (In the United States, however, the two areas, industrial and agricultural, exist in the one vast country.) First of all came wheat and cattle production on the prairie lands of the United States, Canada, Argentina, and Australia. The development of the technique of refrigeration rendered possible the export of frozen and later chilled beef from Argentina and Australia, and mutton and lamb from New Zealand. In more recent years other products—fruit and

eggs, for example—have been brought to Europe from the southern hemisphere in increasing quantities. The production of butter on a large scale by efficient organization was developed in New Zealand and in Denmark. Canning processes brought the fruit of California and many other parts of the world to European tables.

The dislocation of this excellent system of world specialization began during the Great War. The countries engaged in hostilities imported food at high prices from overseas. The wheat, sugar, and meat producers in the specialist agricultural countries were doing well. Immediately after the War prices collapsed, and the ex-combatant countries settled down to rebuild their own agricultures, often irrespective of relative economic advantages. Beet sugar, in particular, was grown increasingly in Europe with the aid of heavy subsidies. The overseas countries themselves had begun to build up protected industries in the years when Europe was engaged in war. Thus Lancashire and Yorkshire found after the War that cotton and woollen industries were rising in countries that had previously been their markets. The first World Economic Conference held under the auspices of the League of Nations in 1927 tried in vain to stem the rising tide of trade restrictions. Textiles and shipbuilding on the one hand, and cane sugar and wheat on the other, have been in a critical way ever since in the countries specializing in their production.

When the economic crisis of 1929—itsself a part of the War aftermath—struck the world, nationalistic agricultural policies were applied to other products—meat and butter, in particular—and more intensively to wheat. When restrictive import duties were not sufficient, a new form of restriction—the quota—was found. This



kept out agricultural imports from the countries that produced them most cheaply. So practically every country in Europe has in the past few years shut out part of its previous imports of cheap foodstuffs, and stimulated production at higher costs within its own borders. Thus in Great Britain the production of beet sugar is subsidized to the extent of £2½ millions a year ; cattle producers get £4¾ millions, and wheat growers £2 millions a year. The protectionist movement reaches its completest form in the countries, notably Germany, which strive to attain "autarchy," the independence as far as possible of reliance upon all imported supplies, even if it involves making, for example, synthetic wool substitute in place of the cheaper article from the sheep's back.

Excellent reasons can, of course, be brought forward in support of these policies. Industrial Europe desires to maintain the solid backbone of its peasantry. Agricultural countries desire industries lest they should be thought to be the country cousins of the world's family, with no civilized graces. The rights and wrongs of these arguments do not concern us at this point. The fact remains that they have led to the piling up of fantastic "unwanted" stocks of commodities.

By an ironical circumstance, at the very time that the world, or at least its governments, were spurning the wealth of its fields and farms in the interests of narrow nationalism, that very wealth was increasing by leaps and bounds. A great deal of laboratory experimentation into crop and animal biology is now carried on in the interests of agriculture all over the world. By the crossing of varieties great increases in sugar yield have been obtained from cane. Types of wheat have been developed that

can grow in droughty conditions, or that are resistant to rust. The scientific improvement of pastures has increased the milk yield of cows and the wool and meat carrying capacity of sheep. The increased use of fertilizers, the discovery of the way to deal with harmful parasites, and the application of machinery have all led in the same direction.

These advances should have been welcomed with open arms in a world where, as we have seen, inadequate feeding is still the lot of 50 per cent. and more of the populations of most countries. In fact, they have rather been the cause of embarrassment. Because collective wisdom has not discovered how to organize world trade rationally, they have given rise to surpluses that the producers have been willing to destroy and sometimes actually have destroyed. Both coffee and sugar are now made into road material in certain parts of the world. For many commodities, the producers' foresight operates before the surpluses are produced, and the producers agree upon the restriction of production in co-operation.

The following are some of the necessities imported on a large scale to feed the British public, in respect of which there are (i) "surpluses" overhanging the market; (ii) restriction of output in the producing countries; or (iii) severe limitation of the quantities that are permitted to be imported into the country :

wheat	coffee	meat
sugar	tea	eggs

Apart from foodstuffs there are international restriction agreements upon

rubber	copper	timber, etc.
tin	lead	

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Furthermore, there is restriction by agreement among producers, organized into cartels, of a great many manufactured articles. The special circumstances of the world's principal necessities of which there are "surpluses" are described below.

*Wheat.*—In 1938 the world's production of wheat was about 4,200 million bushels, of which about 1,000 million bushels was available for export. The demands of the importing countries, however, had shrunk to about 500 million bushels, because of the expansion of their domestic production, whereas before the great depression that began in 1929 it had been about 800 million bushels. Stocks of wheat are accumulating at the rate of about 500 million bushels a year, and unless there are large crop failures due to bad weather there will be unutilizable stocks of wheat of record size in the world. With such an excess of offer over demand, prices are low, and the farmers of the principal wheat-growing countries—Canada, the United States, Australia, Argentina, Hungary, and Roumania—are producing at a loss. In 1933, the Wheat Advisory Committee was established to supervise an international agreement signed in London in that year to limit wheat exports for a period of three years. The export quotas of the principal exporting countries were so fixed that the acreage under wheat would have to be reduced in order that the quotas should not be exceeded. The agreement soon broke down, however, as one of the countries (Argentina) felt obliged to export more than its quota. In the next few years there happened to be a succession of unusually poor crops in one or other of the American countries (the United States, Canada, and Argentina). Thereafter acreage and yields returned to normal, and a "world

wheat crisis" was again threatened. Such a situation is of great political and social consequence in the areas where wheat is grown extensively, such as the west of Canada. The basic maladjustment remains the same. The countries that consume wheaten bread now insist on growing more themselves, whatever the cost. Italy carries on a "battle of the grain" in order to become self-sufficient. Britain has increased its production, and many other European countries have done likewise. Unfortunately, a lower price for imported wheat does not greatly stimulate consumption, as people are not tempted to eat much more bread if the price of the loaf goes down. They merely spend on other things the money they save. On the other hand there are still countries, especially in the East, where thousands starve for lack of bread. They cry for bread, and we give them an international restriction agreement.

*Sugar.*—Sugar is produced most economically from cane grown in tropical countries, of which the chief are Cuba, Java, Mauritius, the British West Indies, St. Domingo, and Peru. Production expanded during the War, but afterwards the more expensive beet sugar was grown increasingly in industrial countries, cane sugar imports being restricted by high duties. The beet is regarded as a useful crop in the agricultural rotation, and gives considerable seasonal employment to labour. In Great Britain beet sugar is given a subsidy that amounts to about as much per pound of sugar as the price of a pound of imported cane sugar. Such subsidized beet sugar now amounts, in all the countries that produce it, to about 40 per cent. of the total production of sugar. Conditions in the cane-growing countries grew so bad that in Cuba all new planting was stopped between 1926 and

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1929. As this had no effect upon accumulating stocks of cane sugar, the principal countries producing cane or beet sugar concluded the Chadbourne Agreement, to reduce exports, in 1931. This broke down, and was succeeded in 1937 by a more comprehensive International Agreement which was to remain in force until 1942. By this agreement all the principal countries accepted export quotas and agreed not to accumulate excessive stocks. The price of sugar remains low, however, and the low price has been the cause of rioting in the British West Indies and Mauritius.

*Coffee.*—Brazil used to produce three-quarters and now produces one-half of the world's coffee. At present it levies a tax on exports, and with the proceeds destroys 30 per cent. of each year's crop. Between 1931 and 1938, 74 million cwts. of coffee were burnt under the plan. This was one of the earliest and most notorious of the "wealth destruction" schemes. It came into being because when there were bumper crops the price slumped heavily and the producers made losses. The attempt was made to carry over stocks from one year to another, but the result was immense accumulation of stocks. Production has also increased in other countries. The consumption of coffee varies greatly, from 17 lb. per head per year in Sweden and 13 lb. per head in the United States to only  $\frac{3}{4}$  lb. per head in Great Britain. It is improbable that the world's desires for more cups of coffee are entirely satisfied. The growing of coffee for destruction is not an economic activity that can commend itself to rational men.

*Tea.*—As there was "serious over-production" of tea, the producers in India, Ceylon, and the Dutch East Indies decided in 1933 to restrict production and exports.

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The International Tea Agreement was signed for a period of five years, and has been extended for a further similar period until 1943. The maximum export in any one of the years 1929, 1930, or 1931 was fixed as the "standard" quota, and during the agreement the permitted exports are reduced by varying percentages of this figure. In 1937-38 the reduction was  $12\frac{1}{2}$  per cent. The producers pay a levy on all tea exports and finance from it a world-wide advertising campaign for tea—the source of the familiar figure upon hoardings in Great Britain of "Mr. T. Pott."

*Meat.*—Beef can be produced much more cheaply on the pampas of South America and in the vast stations of Australia than on most European farms; and mutton and lamb similarly from the immense flocks of New Zealand. Most European countries refuse to avail themselves of these cheap supplies, and since 1929 have clapped on ever-rising duties and quotas. The United States also has high duties to protect its farmers from the blast of competition. Consequently Great Britain is the only substantial market for these supplies. Increasing production and closed markets augmented the flow to the British market and brought about low prices. Under these circumstances the British Government felt constrained to assist its own farmers. By the Ottawa Agreements of 1932 South American frozen beef and mutton supplies were reduced by steps to 65 per cent. of the level in the year ending June 30, 1932. By the 1936 trade treaty with Argentina they were reduced still further. Duties were imposed on beef imported from all foreign countries. The International Beef Conference was established in 1937 to control supplies coming on to the United Kingdom market in order to secure prices

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satisfactory to the producers but fair to consumers. The results of policies of restriction of imports can be seen in the following figures :

### *Imports of Beef*

	1925 (cwt <sup>s</sup> )	1936 (cwt <sup>s</sup> )
United Kingdom. . . . .	14,000,000	11,865,000
Germany . . . . .	3,980,000	646,000
France . . . . .	1,816,000	193,000

*Butter, Milk, and Eggs.*—Cheap, large-scale production of butter is carried on in Denmark and New Zealand. Most countries on the continent of Europe have imposed very high duties on the imports of such butter, with the result that consumption is restricted by high prices. With other markets closed, greatly increased quantities of butter were exported to the United Kingdom. A duty of 15s. a cwt. was imposed on foreign butter in 1932, and provision was made in trade treaties for the possible imposition of quotas on Denmark and other Scandinavian and Baltic countries. Thus, from the point of view of the exporting countries, we may say that there is a "surplus" of butter, since they could undoubtedly produce more if these restrictive influences were not at work.

There is a "surplus" of milk in Great Britain in the summer months. The price received by farmers fell heavily, and in 1933 the Government adopted a curious method of remedying the farmers' plight. Milk for liquid consumption is sold at high prices fixed by the Milk Marketing Boards. Milk for manufacture into butter and cheese fetches prices that depend upon the prices of the imported products. The Boards average the

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receipts from all sources and pay a flat price to all farmers, irrespective of whether their milk has been sold for liquid consumption or manufacture. As a result, the drinking of milk by the poor is restricted because of the price. The Government's Advisory Committee on Nutrition has recommended that the consumption of milk should be about a pint per head daily. The policy for handling the surplus, however, makes this virtually impossible.

The United Kingdom has taken powers in its trade agreements with foreign countries and with Eire to limit the imports of eggs. A duty was imposed on foreign eggs in 1932, and the general situation is much the same as for butter.

*Rubber*—Rubber has been in use for the last two generations only. To-day, for motor tyres, flooring, hot-water bottles, and in a multitude of other uses it is indispensable. Less than twenty years after its introduction as a commercial crop it was being produced in excess of effective demand. The Stevenson Restriction Scheme was signed in 1922 but broke down in 1928. In 1934 another international restriction scheme was framed, under which exports were regulated as a percentage of a standard quota (as for tea). In 1938, permitted exports were fixed at 55 per cent. of the standard quotas.

*Metals*.—Tin, copper, lead, and aluminium are among the most useful, if unobtrusive, adjuncts of daily household existence. There is a surplus, in the market sense, of each of them, and the production is kept down by international agreements. The International Tin Committee fixes production quotas for all the principal countries. In the first quarter of 1938 the quota was 70 per cent. of 1929 output. The Copper Restriction



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Agreement was signed in 1935 and covers production in Northern Rhodesia, Chile, and the Belgian Congo. Production quotas are fixed as a percentage of a standard tonnage of 598,000 tons. The full capacity of the three countries, however, is estimated to be 960,000 tons. The world's principal lead producers have agreed together not to expand their production. Aluminium production is controlled by a cartel.

These details give a picture of the great extent of organized restriction in the modern world economy. The picture is not complete, for there are many other cartels and agreements. Electric lamp bulbs and timber are amongst the other commodities affected. It is significant that London is the headquarters of many of the commodity restriction committees, for Britain is the principal market for most exported foodstuffs, and controls a large share of the production of many of the most important raw materials. Temporary maladjustments between production and consumption are to be expected, but so widespread an "over-production" should give food for much thought. If we contrast the standards of living described in Chapter IV. with the conditions described in the present chapter, we cannot but be conscious that there is no over-production in relation to real needs. Determined efforts to achieve more adequate standards of living through increases in spending power, and through greater efficiency in the machinery of earning and spending would make effective needs that are at present expressed only in the bitterness of the souls of thwarted men leading unfulfilled lives.

## CHAPTER X

### THE NECESSITY FOR PEACE

THE world is rich in minerals, soil fertility, plant and animal life, power, and other resources adaptable to the needs of man. Man's powers over natural resources have been tremendously strengthened during the past hundred years by his greater insight into the laws of chemical composition, physical forces, and biological life. This knowledge has enabled him to construct complex machinery, to harness the sources of power in coal, petroleum, and water, and to shape crude natural products into articles exactly suitable for particular uses. There are now interposed between man and the untouched wealth of the world the elaborate tools of production that he has devised—roads, railways, and ships; machines and chemical processes; power stations, banks, and research associations. Yet, rich as natural resources are, and elaborate as is the organization for controlling them, the results in utilizable goods are still not so great that wastes can be allowed to creep in, or the relative advantages of various parts of the globe neglected. Goods must be produced in those parts where climate, proximity to raw materials, and similar factors enable them to be produced with the least expenditure of human labour. Great Britain could grow all its bananas in glasshouses in Surrey, but would not find this an economic proceeding,

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because less labour could produce goods that would bring the same quantity of bananas by exchange from the West Indies. It is not even true that when a country can produce a commodity quite efficiently it should produce it, for it may be able to produce something else more effectively. Great Britain can and does produce wheat, but it is undoubtedly better for it to use its land and manpower in producing manufactures, and exchange them for the greater part of its wheat requirements, grown overseas. The price of the product is a simple indication of comparative advantages in production. The fact that British-grown bananas would cost about 10s. each would be a sufficient pointer to where the advantages of production lay. It is true that Great Britain can produce some wheat on its best wheat land as cheaply as it can be imported from Canada. The comparable price, for wheat, is the price of producing the last bushel if Britain grew the whole of its requirements at home, compared with the price of obtaining the final bushel from overseas.

The conditions of localization of production are not static; they change with the opening up of new territories, improvements in the technique of production, and the growth of markets for the commodity in question. Nevertheless, there are still comparative advantages in different parts of the world, despite the increased control over natural conditions and the growing possibilities of substituting synthetic for natural products.

Until 1931 production in most parts of the world was based upon such a system of international specialization with the subsequent international sale and purchase of the commodities. Without this system the unprecedented rise in standards of living that began about 1850 could not have taken place. The volume of world

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trade is still large, but many countries have done their best to reduce it in late years, thus putting the brake on further progress towards the elimination of poverty. International trade was facilitated by national currencies being on the gold standard, that is, exchangeable for an unvarying weight of gold. Currencies were then always in a fixed relation. A manufacturer in Great Britain who sold machinery in Argentina for 1,145 pesos knew that he had a credit for £100, and he could continue to trade knowing that sales for 1,145 pesos would return him exactly £100. Now that currencies fluctuate at short notice, no such assurance is possible.

Even before 1931 many countries, though not Great Britain, imposed duties on a large proportion of their imports. The effect of a tariff is generally to raise the price of the dutiable commodity and so to make production within the country profitable that would not have been profitable at the lower price. From the War years onwards the spirit of economic nationalism was impelling many countries to raise tariffs upon more and more imports. It is only since 1931, however, that these nationalistic ideas have obtained such a grip upon Governments that trade between countries has been subjected to high and ever-varying duties, quotas, and exchange restrictions.

As M. van Zeeland said in his report on international barriers to trade, presented to the Governments of Great Britain and France in 1938: "The isolated, divergent, and contradicting measures by which the nations, in the first period of the late crisis, attempted to protect themselves against it, and push off the burden on to their neighbours, have only served to precipitate it and render it yet more grievous for all."

A man is much the same kind of being whether he is

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born on one side of a frontier or another. Nevertheless he very naturally and rightly feels a warm emotional attachment to the State of which he is a member. If there is an alternative of economic sacrifice on the part of his fellow-citizens, and economic sacrifice by foreigners, he unhesitatingly chooses the latter. Economic nationalism began as an attempt to secure certain advantages for countries which it was quite proper that they should obtain. France, for example, though primarily an industrial country, has many small cultivators. It desired to maintain all of them under stable conditions of reasonable prosperity, and was prepared consciously to sacrifice some national wealth to strengthen its peasant backbone. Australia, an agricultural country, wanted on the other hand to strengthen its town life, feeling that a growing nation needed a certain balance between its urban and rural populations. It therefore created industries by partially excluding manufactured imports by tariffs.

Nobody can quarrel with such objectives, provided it is realized that some wealth is being sacrificed to obtain greater social stability or greater diversification of activities. Any country will seem to most men to be entirely justified in shaping its life in such directions if its people wish to do so. Carried much further than this, nationalism becomes a danger to economic progress and to the peace of the world.

At its most extreme, economic nationalism has led countries to attempt "autarchy" i.e. to make themselves into self-contained economic units, by cutting off all except the barest minimum of imports. To quote the van Zeeland report: "It is evident that autarchy is out of the question except in a large national market, dominated

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by an exceptionally powerful central authority. If a country, which fulfils these conditions, wished, at any price, to isolate itself from the rest of the world—economically, financially, monetarily—it could do so, at any rate to a very large extent. Such a régime involves—as its definition almost implies—an increase in the real cost of living, that is to say, a lowering of the standard of life of the population. International economic life is founded on exchanges, which only start or continue if the two parties find them to their advantage. Artificially to interrupt these eurrencies is to deprive the country concerned of that advantage. More effort must be made in order to achieve the same result, or rather the result will probably be less, whatever the effort."

These multifarious barriers to trade furnish a partial explanation of the existence of the "surpluses" that were described in Chapter IX. Countries that specialize in the production of raw materials are producing increasing quantities by reason of improved methods, but their markets have grown smaller, because imports into other countries have been restricted by means of tariffs and quotas. An illustration of the results of such policies can be given by the wholesale prices of almost any commodity in different countries, for example, butter :

	s.	d
Denmark . . . . .	11	per lb.
Holland (for consumption within the country) . . . . .	1	5 "
France . . . . .	1	5 "
Germany . . . . .	1	10 "
(Wholesale prices in 1937.)		

Similarly with wheat, meat, and other products entering into international trade, the prices in some countries have been raised by tariffs to inflated levels, with the results that

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the countries that can produce them most efficiently accumulate unsaleable stocks, and that the poorer consumers in the countries of high prices are unable to buy.

We find the United States Secretary of Agriculture declaring in 1938 that farmers in that country must restrict production, and find ways to deal with surpluses. "The partial loss of foreign markets and prospects of a declining domestic demand for farm products after 1950 has made Governmental crop control more or less a permanent necessity. The country's agriculture has reached a productive capacity considerably in excess of present markets and possibly equal to any future needs. Appeasement in European politics might moderately improve the export market. However, even then the outlook would be less favourable than before the depression. The only practical way to deal with the problem is to adjust farm production moderately by a method which keeps farm land and farm people employed, and in the meantime to deal in a special way with surpluses which accumulate unavoidably."

Measures that disturb the flow of international trade, maintain prices of necessities much above world parity, and destroy confidence have the most intimate bearing upon the problems of income and standards of living. When the price of food is high, consumption is necessarily restricted, and real incomes are reduced. There are, in fact, very marked differences from country to country in the average consumption of butter, meat, milk, fruit, and vegetables, caused mainly by price differences. When the increasing facility of producing most foodstuffs, and the stocks and unused capacity in the most fertile countries are borne in mind, such

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restrictive policies must appear to be extremely ill advised.

If countries gain by exchanging their products with the rest of the world, their trade relations ought to be maintained on a stable footing. All industry and all farming has to be planned with a view to future output. Upon such plans depend the number of men engaged and the capital invested. If reasonable estimates of future markets are upset by the imposition of tariff duties or by fluctuations in the rates of exchange of currencies, goods are produced that cannot be sold, surpluses accumulate, and men are thrown out of employment.

No lengthy discussion of international trade policies is possible here, but this much may be said. If the Governments of the world refuse to produce and trade on a world-wide basis, co-operating freely and frankly for the purpose of raising standards of living in their own countries and throughout the world, they must create areas within which trade between countries can be carried on with a minimum of barriers and a maximum of stability. They must ensure that sectional interests or national pride do not lead them into economic policies that reduce the incomes of their populations. Even the wealthiest nations are still so poor that such action by Governments is a betrayal of their trust. Poverty is the less easy to bear now that the world's productive capacities enable it to be removed. The efficient organization of production and commerce is being frustrated by the spirit of nationalism which, good in itself, has become short-sighted, selfish, and arrogant.

The policy of building up areas of stability has already gone some way as a second best to world-wide co-operation. The United States has a vast free trade



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internal market, and maintains harmonious relations with a number of countries outside. Great Britain has an area of trade and currency stability within the Empire, and also seeks to reduce trade barriers by treaties with other countries. France and the Netherlands both have important Colonial Empires. Moreover, the Netherlands has co-operated with the Scandinavian countries to form the "Oslo" low-tariff bloc. Germany has extended its frontiers and seeks to enter into closer trading relations with Balkan countries. Russia, like the United States, has so vast a territory that it can afford to be almost self-contained.

To urge international co-operation may seem a counsel of perfection at a time when international commercial transactions are overshadowed by the fear of war, and the structure of production is being pushed awry by the expansion of armament industries.

War and the fear of war are the great destroyers of economic progress. This may not be apparent while a war is in progress, for then industry works overtime, unemployment vanishes, and many of the fighting forces are better fed and clothed than they were in time of peace. After the war, however, the industrial dislocation that it has wrought soon shows itself. Factories that have been expanded through State loans or inflation to provide war goods are redundant in time of peace. Factories making goods for normal life are not kept up-to-date, and non-belligerent countries are compelled to set up their own factories. The warring countries make large purchases of wheat, sugar, wool, and other commodities overseas, and when peace is restored grow more themselves, thus throwing the world's agriculture into confusion. The world-wide depression of 1929-33 was caused by the

persistence of maladjustments created by the war that had ended eleven years before.

It may be that war occurs inevitably under the conditions of international competition by capitalist countries. Critics of capitalism urge that this system of private ownership of industrial capital leads to economic Imperialism, *i.e.* to exploitation of weaker countries to obtain markets, raw materials, and opportunities for investment. One such critic has written: "The standard of living in many non-imperialist states is as high as or higher than the standard in many imperialist states, while the burden of taxation and armaments and the risk of war are undoubtedly lower. But the clerk, the shopkeeper, or the labourer who supports imperialist projects or acts is moved by quite other considerations. He who would never dream of supporting a co-operative system of producing wealth, or community ownership of capital, considers himself benefited by the annexation of a remote territory to his country—in which he has a kind of spiritual share. His pride is flattered; his most primitive emotion—fear—is lulled. Even his idealism may be indulged. There is no side of human nature to which imperialist propaganda has not found a means of appealing. Empire is profitable—for it affords room for migration and settlement, safe access to food supplies, more employment, and higher wages. Empire is natural—for it ensures against attack, defends trade, and maintains national prestige. Empire is noble—for it helps to extend civilization and lays upon the white man the 'burden' of assisting and training the backward peoples. As there is nothing that man likes better than to feel he is doing good at a profit, can it be wondered at that he can hardly resist the imperialism which promises both? If

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only it did not end in war. . . . !” (R. S. Lambert, *Modern Imperialism*.)

There appears, however, to be nothing inherently and essentially capitalistic in Imperialism. Countries, such as Germany and Italy, that have abandoned some of the characteristics of private capitalism in favour of State-directed economies are most clamant in their desire for colonies. Some capitalist countries (Norway, Sweden) have never been imperialistic. Many colonies were acquired when the New World was being opened up by exploration, before the days of modern industrial capitalism. It is truer to say that the possession of dependencies is a matter of national prestige. Nor is there anything to be deprecated in the development of natural resources throughout the world by countries possessing capital, provided that there is free access by all countries to such supplies, and provided, of course, that the native people in possession receive a square deal. That there have been abuses of political and economic power by the people of rich and powerful countries against those of backward countries cannot be denied. On the whole, however, the creation of sources of petroleum, metals, cotton, rubber, palm oil, and the interchange of such products for manufactures has made for the lifting of mankind out of poverty, disease, and ignorance. Only if the whole assumption that men are better off with better and cleaner food, houses, towns, and bodies is attacked does this development seem mischievous. Oversea-investment by capitalists has not always been in defenceless dependencies. Much of British investment, for example, has been in the United States, Russia, and Argentina. Colonies to-day are rather starved of capital than exploited. If much foreign investment has been

uncontrolled, and has led to the too-hasty exploitation of some resources (rubber, tin, copper) through the expectation of large profits, that is a problem to be solved by the social control of investment, and is not relevant to the question of peace. The export of capital, so far from being harmful, is to be encouraged, and is suffering now from the instability of international relations. The amount of capital equipment in roads, houses, drainage, factories, farm implements, and stock that is needed throughout the world is immense, and if the more backward countries must wait until they can provide the savings themselves instead of borrowing from wealthier countries, their progress from poverty will be much slower. What overseas lending amounts to is the creditor country's saying: "We specialize in making machinery, locomotives, and tools; as you cannot afford to pay for them we will let you have them on hire-purchase terms, you to repay in due course in the surpluses that you will be producing from the more efficient use of your own resources." Of course such an export of capital goods might not continue indefinitely, for the day may come when all countries are as well equipped as they need to be. That day is still far off.

A characteristic of capitalism that is of much greater moment as a cause of international disharmonies is the existence of large-scale unemployment. "It is certain," Mr. J. M. Keynes has said, "that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated—and, in my opinion, inevitably associated—with present-day capitalistic individualism." Their efforts to cure unemployment have led countries to raise their tariffs and quotas, and generally to attempt to become less dependent upon the

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*fluctuations of international trade.* There appears to be little doubt that a country that is determined to eliminate unemployment at all costs can do so. The methods it would have to adopt might be compulsory labour on public works, the State direction of investment, control of foreign trade, wages, and profits. Such a control is certain to depress the living-standards of the previously employed population, but this might be accounted a lesser evil than maintaining millions in compulsory idleness. Better still would it be to retain to the utmost practicable extent the advantages of international specialization, while taking whatever measures are necessary to control the economic system within the country. The principal measures are the control over the direction of new investment, and the increase of consumption. No country that has ample capital resources has any excuse for prolonged unemployment on a large scale. If all new investment were directed by some central authority that was not subject to waves of depression and exaltation, and was not bound to rely solely on the possibility of attaining certain levels of profits, useful occupations could be found for the bulk of the unemployed. To a certain extent this method has been followed, and this result achieved, in the State stimulation of armament industries. Armaments, however, have at the best only a negative value to a State. They may prevent it from being destroyed, but they cannot contribute to further wealth production. Since the piling up of armaments by various countries in competition increases the danger of war's ultimately breaking out, this method of solving the unemployment problem is a highly dangerous one. What is wanted is an active social demand for peaceful goods, into the production

of which new investment can be turned. If there were as keen an increased demand for clothing and houses as there is for guns and battleships, the economic machine could be kept active in a safer and more rational way. This demand can be created by gradually raising the purchasing power of the mass of underpaid people.

Thus international peace and co-operation are necessary for the maintenance and improvement of standards of living ; and more attention to the adequacy of purchasing power is necessary for the preservation of peace. It is a complex web of human relationship, which needs all of mankind's wisdom and goodwill, if it is not to be unravelled into a fatal tangle.

## CHAPTER XI

### SOME PROPOSALS FOR RAISING INCOMES

THERE are, of course, many ways proposed of improving the working of the economic process. Some of these are no more than nostrums, some have behind them the large authority of political movements and of governments. The substance of this book has been descriptive, and the reader must be left to make an independent judgment upon large schemes for economic reform. Some reference to the main lines of thought, however, must complete the survey of the earning and spending of incomes.

The raising of wages in occupations where they are abnormally low, so that they conform to minimum standards, represents an avenue of attack upon one aspect of the present income structure. There are many industries and occupations in Great Britain (and, of course, in other countries) where wages are below the level at which the wage-earner and his family can live in respectable conditions. If what is most needed is a general advance in productivity, resulting in a great expansion in the size of the national income, a first—and thoroughly practicable—step is to ensure that no workers are living upon incomes that react unfavourably upon their health, happiness, and efficiency, and render them a drag upon the general advance that it is hoped to secure.

## EARNING AND SPENDING

Organized trades secure negotiated wage rates through their trade unions. In a number of less organized industries trade boards have been established under the Trade Boards Act of 1909, and these lay down statutory minimum rates of wages. The rate is about 1s. or 1s. 1d. per hour, giving a wage of 48s. to 52s. for a 48 hour week, in most of the occupations affected. The rate for women is usually less; in some industries the rate is higher. Thus the Tobacco Trade Board fixes a minimum wage of 61s. 6d. for men and 38s. 6d. for women for a 48-hour week.

Trade unions and trade boards, however, leave untouched a large number of wage-earners whose incomes are still abnormally low. G. D. H. Cole (see Book List) quotes the following list of occupations in which the Unemployment Assistance Board found wages of 25s. or less being earned in some cases by adult men :

*List of occupations in which the Unemployment Insurance Statutory Committee found abnormally low weekly earnings.*

Greyhound-racing kennelman.  
Dance-hall assistant.  
Cinema commissionaire.  
Junior clerk.  
Fishmonger's assistant  
Barman.  
Bill distributor and messenger.  
Porter  
Sandwich-man outside shop.  
Commission salesman.  
Caretaker.  
Coal bagger, coal loader.  
Cross-piecer in cotton mill.  
Little piecer (adult at boy's wage).  
Labourer in spinning room.



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Greengrocer's vanman (second man)  
General labourer.  
Cinema operator (third man).  
Cinema spool boy.  
Newsvendor for newsagent.  
Window cleaner.  
Ice-cream salesman.  
Night watchman.  
Warehouseman's assistant.  
Flour packer.  
Painter's handyman.  
Lap-carrier in card-room (cotton).  
Textile jobber.  
Doffer in worsted spinning  
Helper at biscuit works.  
Labourer in tube department (rubber works)

The Unemployment Assistance Board thus finds that even its sparse maintenance payments are sometimes higher than the wages that the recipient had been getting.

A report made to the Pilgrim Trust (see Book List), based on a survey of a sample of long-term unemployment, found that wages were so low in some occupations "that there is a considerable number of men kept out of work by the fact that unemployment assistance is a reasonable alternative to low-paid employment."

Such low levels of income cause illnesses that eventually add to the country's health bill. They reduce the national income, since it is impossible for good work to be put forward on such terms. They result in some activities that could better be mechanized being carried out inefficiently by hand because cheap labour is available. They restrict demand for the consumption goods that it is the sole final end of the economic system to produce.

A national minimum wage is not unpracticable of enforcement. In Australia there is a basic wage, which is

the lowest wage that can be paid to an unskilled labourer on the basis of "the normal needs of an average employee regarded as a human being living in a civilized community." The basic wage is fixed upon an estimate of the minimum expenditure of a family of about five upon food, rent, and other necessities, account being taken from time to time of changing prices. There is also a general basic wage in New Zealand and some other countries. Mention may be made here of the important work carried out by the International Labour Office in improving hours and working conditions by international agreement. Although the International Labour Office leaves minimum wage policy to national action, it insists on the value of minimum wages, and the maintenance and increase of wage rates wherever possible.

This, then, is one type of practical proposal for raising efficiency and increasing purchasing power, with all the repercussions that these would have upon the national income. They mainly affect, however, certain grades of "sweated" labour. We turn now to broader aspects of the question of removing fluctuations in, and increasing the size of, the national income. The mechanism of money and investment is of the first importance to the study of incomes. Although what is really important to the wage-earner is the quantity of goods that he and his family receive, their income is paid in money. Money is a kind of oil that lubricates the machinery of production and distribution of goods. Its efficient functioning is dependent upon the system by which supplies of money and credit are controlled. Many illustrations of this can be found in recent economic history. In countries where the monetary supply was "inflated" by the

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printing of an increase in the issue of banknotes, there were periods of rapidly rising prices coupled with active business conditions, terminating in a slump. In Great Britain, on the other hand, in 1925-29, when it was necessary to charge high rates for borrowed money in order to give foreign depositors a high return so that they should not withdraw their deposits in the form of gold, business was slowed down because of the expense of raising capital from the banks to finance current business. The contrary situation existed in the United States before the slump of 1929. Money could be borrowed so readily from the banks that a large part of the population was encouraged to speculate with borrowed money in stocks and shares, forcing up stock prices to a level from which they eventually collapsed in a violent slump.

Money takes two distinct forms in the modern economy: the cash that circulates from hand to hand, in which wages are paid and small purchases made; and bank balances which are advanced to industrialists to finance the purchase of materials and other operations. Clearly the banking system that has its hand upon the operations of issuing cash and rationing credit is in a position of unique responsibility towards the whole community. A number of proposals for economic reform turn upon this fact.

In Great Britain the Bank of England—the note-issuing bank—and the five large joint stock banks are privately owned companies. The Labour Party holds that their responsibility is too great to be possessed by anybody but the State, and urges that the banking and financial system should be nationalized. “British public opinion, increasingly impatient at the long continuance of our present disorders, more and more fixes its critical

gaze upon finance. . . . The world-wide crash in the price level since 1929, with all its disastrous consequences, is a financiers' achievement; the continuous deflation of currency and credit in this country from 1920 onwards was a long series of financiers' decisions, taken without advertisement, or public discussion, or parliamentary sanction, and imposed upon British industry and agriculture, either unawares or against their will. . . . We must socialize the leading financial institutions, enforce a proper measure of control upon financial policy, and infuse a social purpose, as distinct from a profit-seeking purpose, into financial operations." (Hugh Dalton, *Practical Socialism for Britain*.)

Thus, however, is a criticism of machinery upon the grounds of its insufficiently democratic character, rather than a criticism of the principles underlying the supply of money. *It is by no means clear that a public institution would hold any new clue to solving unemployment and under-consumption by monetary methods.*

Major C. H. Douglas, in his Social Credit movement, maintains that the banking system is at fault in immobilizing a part of purchasing power as profits, so that the purchasing power available to the public is always less than the amount necessary to remove from the market the goods that have been produced. Here he finds the clue to "over-production," which he proposes to remedy by the issue of social credit notes.

A considerable number of other writers have put forward the theory of under-consumption, to the effect that, since a part of the proceeds of production is paid to wealthy people who can spend only a part upon goods for current consumption, and who invest or save without investing the rest, there is a continuous tendency for the

purchasing power of the masses to be insufficient to buy the goods produced, without a fall in prices that will lead to a business slump. Mr. J. M. Keynes, in a more sophisticated theory (see Book List), has urged the desirability of a more even spread of incomes and of an increase in the propensity to consume.

Although under-consumption theories have been suspect in more orthodox economic circles, governmental action based upon them has recently come to the fore in certain countries. "In the matter of wage policy the slump has also produced important and in some respects unexpected lessons. In former times there was a common belief amounting almost to a dogma that the most effective method of combating depression lay in the reduction of wages. It was argued that when the consumer was no longer willing or able to buy at prevailing prices, the manufacturer had no choice but to cut down costs until his prices were so reduced as to tempt the consumer back into the market. As the largest cost item under the manufacturer's immediate control was wages, a cut in wage rates was looked upon as the most obvious and the most ready expedient for achieving the desired result. Hence from the earliest days of the industrial revolution, wage cutting has been advocated as the classic method for restoring business activity and preventing unemployment." (*Report of the Director of the International Labour Office, 1937.*)

The increasing of purchasing power as a method of curing a slump found practical expression in the United States and France, where wages were increased and hours shortened. When production falls off and unemployment mounts during a depression there are two ways of stimulating production in a capitalistic economy. In-

vestors—private or public—may be persuaded to invest at their previous rate, thus creating a demand for labour and commodities and increasing the flow of wages. Or the purchasing power of consumers can be increased by raising wages, thus increasing the demand for goods, raising prices, and making it again profitable to produce. These two Governments attempted, by heroic measures, to raise business activity through drastically increasing consumers' demand. It cannot be said that their experiments provide any conclusive evidence upon the efficacy of a sudden increase in wages as a method of curing a trade depression. The measure of recovery was at least as large in Great Britain, where the policy was pursued of stimulating investment by cheapening the rates at which money could be borrowed. The conclusion of the Bank for International Settlement is widely accepted: "Only a rise in the rate of new investment can provide a durable basis for an upswing in business activity. The mere stimulation of consumption by government expenditure or—as in France—by suddenly improving labour conditions does not provide business activity with this basis. It may stimulate when it is introduced, but it does not awaken the more normal and permanent motive forces, and if it puts too heavy a burden upon production the ultimate effect may even be the reverse of that intended." (*Annual Report of the Bank for International Settlements*, 1938.)

A distinction must be drawn between measures for improving matters during a trade depression and measures designed to effect permanent improvements in economic organization. Some of the former have just been mentioned—credit policy, the raising of wages and shortening of hours. To these should be added the policy

of governmental investment in public works, to supplement the reduced flow of private investment. This policy has been widely advocated and—in the United States, for example—followed on a large scale. Its difficulties are practical rather than theoretical. It is not always easy for the State to find public works which are useful, and upon which jobs can be given to utilize the particular forms of skill which the unemployed happen to possess.

The cyclical trade "slump" is a characteristic of modern capitalistic production. Its severity has increased in recent years, and it is an evil of the first magnitude for which a cure must somehow be found. There are a multitude of theories about the trade cycle, but there is yet no known method of averting it. During a slump, national incomes suffer a setback, and an appreciable proportion of the productive resources of men and capital are thrown into idleness. Not only, that is, do incomes not advance, as they should do with our ever-increasing command over natural resources; they retreat. The whole world is seized by a feeling of frustration.

It may well be that the cause of slumps is the same force that prevents the level of incomes, even in normal times, being as high as they could be, were production and man-power ordered more efficiently. In this event a radical change in economic and social organization might be necessary.

Socialism is partly an economic plan, partly an ethical movement. Its proposal is that property in capital for industrial and agricultural production should be publicly instead of privately owned. "It is the chief historic aim of Socialism to transfer to public ownership private property rights in the means of production. . . .

Socialists seek, by the abolition of poverty and the establishment of social equality, to build a prosperous and classless society." (Hugh Dalton, *op. cit.*) It is thus, in part, a proposal for so organizing production that present obstructions to economic progress would vanish. It would involve a new legal structure for society, in which the existing form of property rights would not be adhered to. Whether, within such a framework, production would function more efficiently cannot be finally settled *a priori*. Some part of the case for Socialism is based upon ethical considerations, e.g. on the desire for social equality and democratic organization in industry. Such considerations are not strictly relevant to the question of economic efficiency. Some factors in increasing output and incomes—such as relative freedom of international trade, or the increase of inventions—would have equal weight under a socialistic as under a capitalistic economy. The argument that private ownership of property and the exploitation of one man by another are the causes of slumps, friction between nations and classes, and wastage of wealth is put forward in the Marxist thesis; into a discussion of which, however, the present factual survey of earning and spending cannot enter.

The planning of production by organs of the State is not necessarily coincident with Socialism. All phases of economic life come increasingly under State control in Germany and Italy, countries in which the ethical basis of Socialism is not accepted. In planned economies, greater economic stability can certainly be achieved than under conditions of competition. Unemployment can be abolished by means of the compulsory setting of men to jobs. A competitive economy, if more subject to



industrial fluctuations, retains greater freedom for the individual, both as to how he shall earn his income, and how he shall spend it. The decentralization of decisions in such an economy is possibly more likely to lead to the best exploitation of natural resources than unified decisions in a totalitarian State, with their opportunities for making huge and costly errors. Under competitive conditions consumers *with money* have a range of products at their command to suit every difference of personal taste. A large London store stocks several hundred brands of silk stockings and over fifty brands of tooth-paste ! This is carrying freedom of choice rather far, but it serves as a reminder of the sacrifices of choice that a planned " autarchic " economy might involve. Planning, in fact, is not good or bad in itself, but only in relation to the ends to which it is directed. The increased opportunity of consuming the wealth that the modern world can make available, on the part of the masses of the people, is the end to which economic activity, consciously or unconsciously, should be directed. To the extent that centralized planning can assist towards that objective it should be adopted ; when planning, directed to other ends, results in lowered standards of life, it is generally a form of economic retrogression. In Great Britain there has been increasing State control over certain parts of industrial and agricultural production. The issue between planners and non-planners is, therefore, mainly one of degree. What should be planned for is not planning as such, but a healthier, wealthier population, using an ever more smooth-working economic machine.

It used to be thought that the numbers of the population went up automatically if wages rose, and that wages

could not be much higher than would prevent, from sheer want and misery, mothers bearing more children. This gloomy view is long since discredited. Prophecies are now heard that if the birth-rate continues to decline as it has over the last few years, the population of Great Britain will be greatly reduced by the end of the century. The quality of the population is much more important than its numbers. Better standards of living are likely to increase appreciably the numbers of children born who live to maturity. The raising of living standards by all means within the power of the State and of the individuals who are in positions of economic power within the State is, therefore, the clue to most problems of population and of the activation of the economic system.

Thus should take the form of minimum wages upon an adequate scale, and of giving maintenance from "civil rights" where essential upon a scale not much inferior, of taking all necessary social measures to improve the health, feeding, housing, and general efficiency of the population, so that they can produce and earn more; of securing the equitable distribution of the national income; of maintaining conditions in which enterprise and invention flourish; and of organizing the internal and international distribution of goods on the most rational lines that our warlike and nationalistic world can permit. The increase of effective demands—the increase of people with both wants and money—will do much towards lessening the evils of depressions and "over production." "For," as J. M. Keynes says, "if effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the industrial enterpriser who seeks to bring these resources into action is operating with the odds loaded against him."

## CHAPTER XII

### WHAT THINGS COULD BE

PRODUCTION is not an end in itself. The productive process must be judged by the extent to which its results satisfy human needs. Education, leisure, and a pleasant environment are elements in income that should be available, as well as saleable commodities. The foregoing chapters have given some account of success and failure in this respect. Present results cannot be regarded with equanimity. It is impossible to be content with the structure of well-being that has been obtained while it rests upon a broad substratum of want.

The past half-century saw great improvements in the organization of production. Mankind has secured a sense of power over the forces of nature that it never possessed before. Ever more ambitious industrial and engineering projects can be planned and carried out to the last letter ; but the organization of the inter-relations of the economic process lags behind. Man's control of his tools in the economic field has been woefully less successful than his control in science and technology. However, advances have always come from the application of human ingenuity to problems created by urgent practical necessities, from "challenge and response." It may be that the world is entering a period of progress in

organizing the economic relations of man to man, comparable with the progress in other spheres.

The difficulty is that economic activities have rarely been "organized" at all. They have been the result of multitudinous separate decisions acting within the general framework of law laid down by the State. Better organization does not imply that the whole must necessarily be directed in the future from one centre of authority. It implies that the final end must be decided upon, as in any other piece of planned work, and that the best means available should be used to reach it.

There can be little doubt about what the final end is. It is that men should "have life and have it more abundantly"; in more concrete terms, that men should have enough work, but not too much; that they should have houses that are not only adequate but beautiful; that they should achieve health and be educated; at the very least that all men should receive the physiological basis for a good life. There probably never has been much controversy about this objective. But in the past it was permissible to doubt the possibility of realizing it. Faith was placed in "the unseen hand of Providence" to bring it about in good time.

The sphere in which human rationality can have play has widened, and economic relations now fall within it. It is arguable that the imperfections in the productive system are due to the very poverty that it permits, rather than poverty being due to inadequate productive power.

"If we accept the Aristotelian conception of the *summum bonum* with its emphasis upon the self-realization of the personality of each individual, as the objective for social policies, we limit our freedom of action in selecting measures to raise standards of living. We can neither

resort to devices appropriate to the stud farm nor evaluate the consequences of destroying the high level of living of a few in order to improve the material well-being of the many.

"Aristotle himself had to compromise with his first principle in seeking a solution to this second difficulty. He had to be content to erect his ideal society upon a basis of slavery for a part of the population inside his own state and with a condition of admitted inferiority for those outside it. To-day, however, advances in modern science are providing us with a partial escape from this dilemma. To know what is necessary for the mere survival of the many should make it intolerable for the few with a relatively high level of living to contemplate a state of affairs in which this minimum is not attained. In the absence of any higher motive, the mere instinct of self-preservation should oblige them to strive to make good contemporary deficiencies. For the benefits of modern knowledge and of capital—as distinct from capitalism—can only be obtained if there are substantial increases in consumption. It appears, therefore, not untrue to say that the maintenance of the economic and political security of prosperous nations and wealthy individuals has come to depend to a very substantial degree on the prosecution of measures designed to give at least a minimum standard of physiological living to the masses of the people." (*League of Nations' Preliminary Investigation into Measures of a National or International Character for Raising the Standard of Living*, by N. F. Hall.)

It is not visionary, but thoroughly practical and necessary, to design a realizable Utopia, which can form the goal of endeavour in the economic field. It need not suppose any sudden changes in human rationality, nor

take as given improvements in production that are only problematical. There are many who hold that such a result can only be attained by drastic changes in the present social system. That may be so ; but we are here concerned with ends rather than means. Let us first decide where we want to go and where we can go, and then choose the best roads for getting there. The following headings indicate the possible outlines of such a plan.

*Money Income.*—The general level of money incomes must be sufficient, when supplemented by socially provided income, to enable income earners and their dependants to obtain all the necessities for a full and satisfactorily occupied life. At present the national income of Great Britain of about £4,000 millions provides an *average* personal income of £85 a year or about £250 per adult man a year. But a considerable traction of the national income must be spent on producers' goods, and the average income available for consumption is less than this ; and the national income is by no means equally divided. The most general level of money income—that received by 90 per cent. of the working population—is below £250 a year. This presents us with two problems, of increasing the total national income so that incomes generally can be raised, and of ensuring that no part of the population falls below a reasonable minimum money income. What level of purchasing power is necessary for a full life cannot be precisely laid down. Aldous Huxley has suggested that "if a man is to be properly nourished, housed and educated, if he is to have adequate holidays, adequate medical attention and adequate educative travel, he will need an income of about £600 or £700 a year, or its equivalent in cash or communally provided services. Where several people

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are living together in a family group, this sum can doubtless be reduced without reducing each individual's opportunities for self-development." (*Ends and Means.*) The desirable and attainable general level of family income under present circumstances may be placed somewhere between £250 and £600 a year. To obtain this will require a considerable expansion of the national income. This objective is already in the arena of public discussion. For example, President Roosevelt stated in his message to Congress in January 1939 that his administration wanted "to get enough capital and labour to work to give us a total turnover of business to produce a total national income of \$80,000,000,000 a year." "This nation," he said, "need not be a \$60,000,000,000 nation. At this moment it has the men and resources sufficient to make it at least an \$80,000,000,000 nation." The same ratio of improvement might be aimed at as a first step in Great Britain. An expansion of the national income by one-third would raise incomes now at the £250 a year level to about £330 a year. Such an increase would itself contribute towards a further progressive raising of the nation's wealth.

Even the present level is sufficient to provide the minimum level of decency of £1 a week per person, or, say, £4 a week for a family with three children. The estimated absolute minimum for a family of this size of 53s. per week is cut too near to the bone to be adopted as the ideal minimum. This should be achieved in the first place by the establishment of minimum rates of wages, based on the principle of allowing no worker to receive less than a living wage. As adequate incomes per person, irrespective of age or sex, are so important, the adoption of a "family allowance" system of wage

payments appears to be essential. This system has already been adopted in France, Belgium, Italy, New Zealand and New South Wales, and in Great Britain by certain firms.

*Real Income—Food.*—The provision of nutritious and health-preserving dietaries is even more urgent than the raising of money incomes. That is, if it takes time to raise low money incomes as a first step, other measures must be taken to ensure that the minimum in basic physiological requirements is reached.

*Housing.*—Housing is already a sphere in which the State provides additions to real income in the form of subsidies to enable houses to be let at low rents. The need for further progress in slum-clearance and rural housing is still great. A plea may be introduced here for more control of the appearance and layout of houses, not less where they are built by private enterprise for letting at higher rentals than in schemes by local authorities. It is unfortunate that the face of the country has been scarred by much bad, usually middle-class, residential building. Beauty in every-day surroundings is no small part of real income. Many an artist remains unemployed who might serve society in a lasting way by designing houses, schools, factories, and public buildings that would inspire future generations to act in harmony with their conception.

*Clothes, etc.*—Increased purchasing power for clothing and the adjuncts of the household would come automatically from higher money incomes. It is desirable that the greatest freedom of choice in matters of personal possessions should be maintained, and there is, therefore, less scope for social provision of increases of real income under this heading. The cheapening of production of vital



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necessities such as clothes is, however, important. This has already been done for men's suits, books, and other goods in recent years. The demand for such commodities as shoes is highly elastic, and the extension of mass production methods of all such commodities for which the demand is great and capable of expansion should be encouraged. Import duties that increase the cost of all these commodities should be reviewed.

*Health.*—Higher levels of consumption of food, housing, and other necessities will provide the basis for better health. The relation between poverty and illness has been conclusively shown. Nevertheless, the practical Utopia will need something better than the present haphazard methods for the treatment of illness. The important pioneer work of the Peckham Health Centre provides a model for progress in this direction. There should be many such centres, where family groups can receive continuous medical supervision, so that ailments, however small, may be dealt with early and a great deal of serious trouble thus prevented. The centres should provide, as at Peckham, social intercourse, libraries, facilities for exercise and recreation, and thus give the whole population something like the mental, physical, and emotional stimulus provided for the more fortunate young by the Universities. Man is a social animal and needs centres of social activity. In the past the village church provided a teaching centre where the citizen obtained his *Weltanschauung*, his understanding of the world. The complex modern world, about which such a wealth of available knowledge exists, needs its centres of assistance, and in these modern days such assistance could well comprehend knowledge, psychological difficulties, and physical health.

*Education.*—Education is compulsory for all from the age of five to the age of (after 1939) fifteen. Much has been done since the days when inspectors found that the schoolmistress herself was unable to spell her own name, or "the schoolroom 15ft. long by 10 ft. wide, and counted in this space seventy-five children, who were gabbling something unintelligible." But educational standards are still low and schoolrooms overcrowded. It is often argued that the system of scholarships provides an open door by which all who have the brains can procure the best education that the country can provide. It is forgotten that a well-nourished body is an essential precondition to a healthy mind, and that promise is often not obvious before the age of fifteen. Home conditions and school surroundings may blunt the appetite for learning. Education must be continued at least until the age of sixteen, and it should be based upon as broad and general a curriculum as possible, followed by some special training based on natural aptitude. The working population of the future will then be able to adjust themselves more quickly to changing conditions and fit into a greater variety of possible occupations. The main object of a broad education is to teach the young to perceive, think, and act for themselves. We live in a changing world, and the young have not merely to repeat the lives of their parents. They will have to change it still further, create new standards and ideals, harness new forces to the service of human wants. They are likely to have more leisure and more of the world's goods at their disposal, and we, in providing or failing to provide them with suitable environment and education, determine to some extent whether our attempts to better the world will bear fruit.

## WHAT THINGS COULD BE

*Leisure.*—Recreation, with the opportunity to use it fruitfully, is one of the most neglected aspects of the question of incomes. Leisure implies mental refreshment and "re-creation," and nothing is more distinctively the mark of a civilized society than a proper balance of leisure against toil. The reduction of working hours has always met resistance from conservative minds, yet each gradual step has proved practicable without causing the economic dislocation that they foretold. Indeed the reductions when put into effect have resulted in an absolute increase in output. It is probable that a further progressive decrease in hours to seven a day would increase the output per man to such an extent that the present levels of production would be maintained. Admittedly such action must be taken at the appropriate time, and not so swiftly as to dislocate the smooth working of the economic system. As far as possible, reduction in hours should be co-ordinated internationally through the mechanism of the International Labour Office. In the long run it is likely that progressive mechanization and rationalization of production will necessitate the shortening of hours and the spread of employment if the whole working population is to be employed. When increasing levels of material income are achieved, it will probably be possible to make a deliberate choice between still greater incomes in goods and greater well-being in leisure.

The above suggestions include questions of social policy as well as purely economic policy, but the two cannot be dissociated. Social advances require the background of rising income, and improvements in productivity in their turn depend upon improvements in the quality of the population, and upon more effective

social control. The whole must also be conceived on an international scale, for it is unlikely that one nation can become rich while others are sunk in poverty and inefficiency. The contagion of poverty is too great, and low standards in one country contribute to the depressing of standards elsewhere.

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